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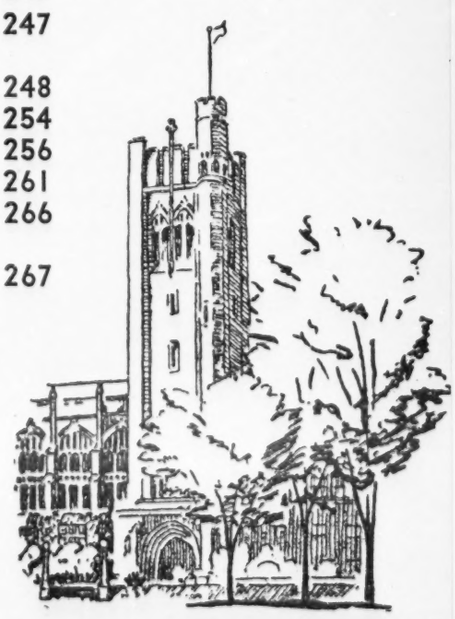

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VOLUME XXI NUMBER 3

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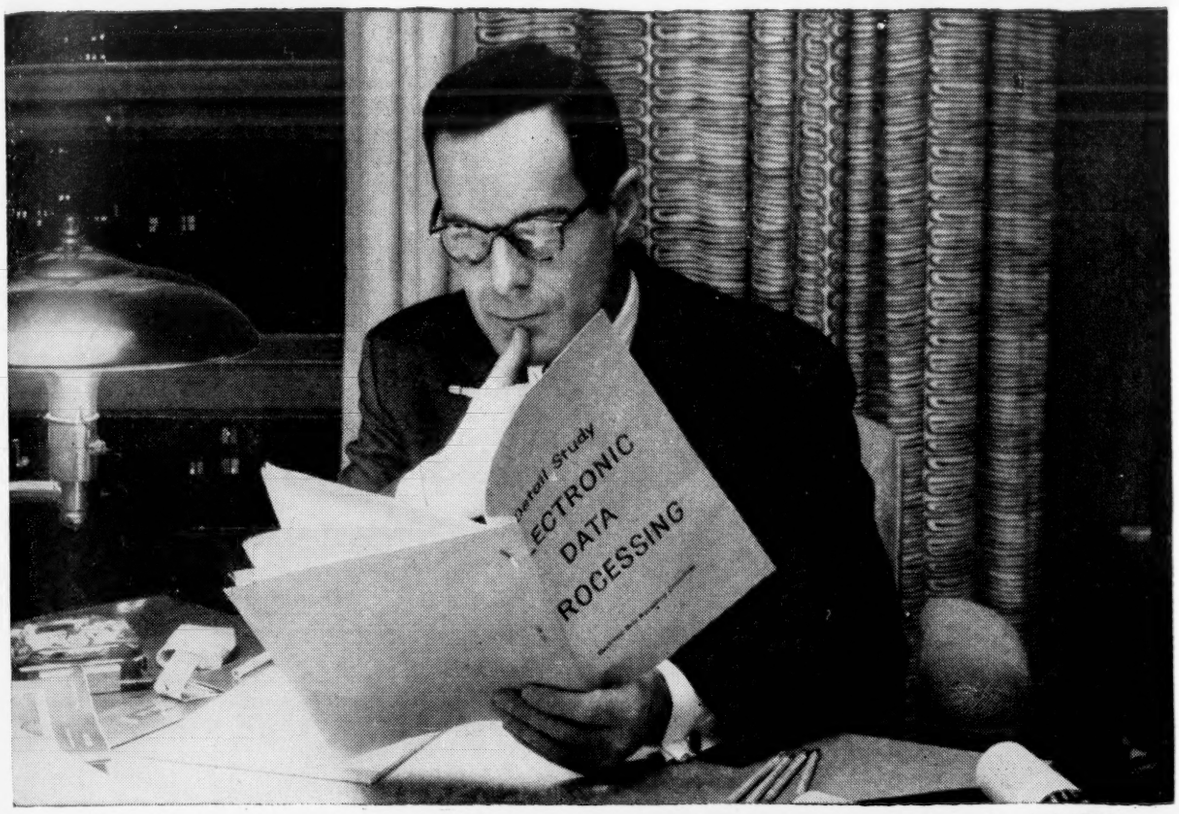

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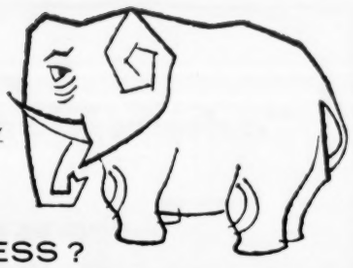

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THE BUSINESS QUARTERLY

VOLUME XXI Number 3 — FALL 1956

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- *Published by*—
  The School of Business Administration,
  University of Western Ontario,
  London, Canada.

The views and opinions herein expressed are those of the several authors and do not represent an official opinion of *The Business Quarterly* or the University of Western Ontario.

Manuscripts and correspondence concerning articles should be addressed to the Editor.

A consolidated index of subjects and authors was published for the first 20 volumes in Vol. XX, No. 4. The contents are currently indexed both by the Canadian Index, Ottawa and the Public Affairs Information Service, New York.

- *Business Manager*—
  N. M. ARMSTRONG
- *Subscriptions*—Single copy, $1.00; One year, $3.50; Three years, $8.00.
- *Advertising Rates*—Furnished by the Business Manager upon request.
- *Printed by*—
  Hunter Printing London Limited,
  226 King Street,
  London, Canada

Authorized as second class mail, Post Office Department, Ottawa, Canada

Editorial . . .

In "The Educational Forum" our summer contributor Dr. Leopold Kohr tells us "how to get a good grade". "A prospective wife should be so beautiful that one would marry her even if she were poor and so rich that one would marry her even if she were ugly. In the same way, one may say that a candidate for a good grade should know so much that he would pass even if he would express himself with the crudity of a Paris taxi driver, and he should be able to express himself with such elegance that he would pass even if he knew nothing. There are many who know a great deal in the world outside the university, but relatively few who can express themselves with elegance. Other things being equal, the competitive struggle will ultimately favour those who, in addition to common qualifications have manners and elegance or, as one might call it, academic charm. One without it should never be graduated. For without it, he will not be distinguishable from the rest, and if he is not distinguishable, he should not be given a degree of distinction."

In this issue, we too advocate elegance. To make the grade, it is necessary not only to students. It is an essential of effective administration. It distinguishes the leader. To gain it executive counsellor McCay tells company presidents not only to send their staff, but also to go back to university themselves. Du Pont Chairman Greenewalt says very much the same, when telling us to take an ever longer view into the future. And, at the other extreme, Dr. Wainwright introduces us to the alcoholics in industry, those who abandon the search for elegance:

"They never taste who always drink;
They always talk who never think".

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Letters to the Editor . . .

In Defence of the Canadian Consumer

I find it hard to share Stefan Stykolt's enthusiasm for Harvard economists and that these be substituted for Canadian learned justices as authorities on monopolies in Canada. How can he reconcile this view with his critique of the asphalt roofing report based on the views of Harvard economists which he himself calls "unreadable and unclear with endless repetition". Surely it is bad enough when Washington lawyers have to be briefed to defend Canadian consumers against the patent abuses and monopolistic practices of Canadian manufacturers before the recent hearings of the Ilsley Royal Commission on Patents, Copyrights, Trademarks and Industrial Designs.

John Hampden
Montreal

Lies & Statistics

I like the fine figures shown in Stuart Armour's article but why does he want to upend them and put the last figures first? Are business directors incapable of reading figures in their natural sequence? Callipygian curves should obviously be looked at bottom up.

Peter Johnston
Vancouver

I have found it a singularly interesting and informative publication and on more than one occasion I have reprinted articles from it on the editorial page of the Citizen. Besides being very brightly written, it has particular appeal to people in Ottawa for very obvious reasons.

R. W. Southam
Ottawa

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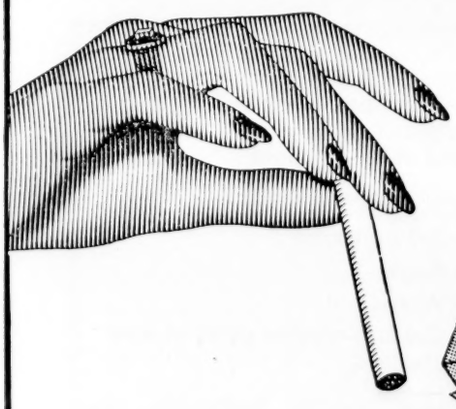

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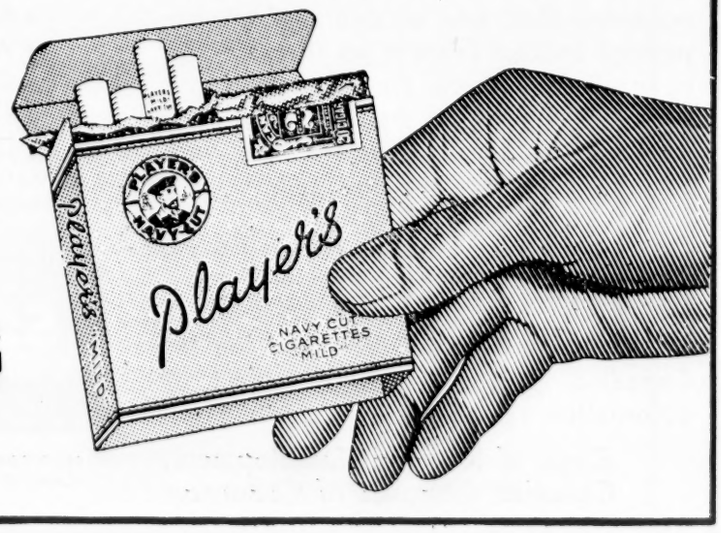

THE MILDEST BEST-TASTING CIGARETTE

About Our Authors . . .

Dr. G. A. Wainwright, after leaving army medicine in 1945, combined industrial medicine with his work in anesthesia. In 1953 he received a fellowship in Industrial Medicine to which he has since devoted his full time, combining directing medical services at John Labatt Limited, with lectures in Industrial Medicine at the University of Western Ontario Medical School.

James T. McCay, after adding engineering experience in Middle East oil fields to his U.B.C. chemical engineering degree, formed Bois, McCay & Associates Limited, Management Consultants, of which he is Vice-President and General Manager.

Douglas Roy Sherk, B.Sc. University of Toronto and M.B.A. University of Western Ontario, 1956 is presently employed by T. Eaton Company Ltd., Mail Order Division for "Operations Research".

Formerly an economist with various war agencies, a naval officer in the South Pacific and professor at McGill and Rutgers Universities **Robert A. Solo,** B.Sc., M.A., Ph.D., is now teaching at City College, New York City. His book "Economics and the Public Interest" appeared last year.

C. F. Owen, Oxford graduate and now teaching in the Department of Political Economy of University of Toronto, has published several articles in "Industrial Relations" (Laval) and "The Journal of Business" (University of Chicago).

Farm problems are nothing new to Manitoban **Dr. Howard Linklater Patterson,** Director of the Farm Economics Branch, Ontario Department of Agriculture. His special studies include pioneer problems in the Peace River District, land utilization, cost problems of Ontario farms, and the problems of transferring farms from one generation of owners to the next.

(Continued on Page 274)

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CANADIAN TAXATION AND THE BUSINESSMAN

K. W. Lemon, F.C.A.

THE 1956 amendments to The Income Tax Act which were passed hurriedly by Parliament during the calm following the pipeline storm make particularly dull reading and contain little of general interest to the Canadian businessman. During the course of the budget debate, however, one spark of interest was provided with an announcement by the Minister of Finance forecasting a change in the law relating to the taxation of dividends paid by Canadian corporations to non-residents.

This proposed change partially meets the widespread criticism which has been levied at our existing legislation, which has had the unfortunate effect not only of limiting opportunities available to Canadians for investment in the growing number of Canadian businesses controlled by United States residents but also of discouraging Canadian investment in foreign securities. The new basis, while it corrects only the first of the faults referred to above, is of considerable significance as it should make it possible for Canadians to participate to a greater extent in the economic development of this country.

United States Controlled Canadian Companies

While, except in the case of wholly-owned subsidiaries, the Income Tax Act levies a 15% withholding tax on dividends paid by Canadian companies to non-residents, the Tax Convention between Canada and the United States provides for a reduction in the withholding rate to 5% in cases where 95% or more of the voting shares of the Canadian company are held by a United States corporation. As a result of this provision, United States corporations have been naturally reluctant to permit significant Canadian investment in their subsidiary companies in this country as such investment if it exceeded 5% would result in the loss of the lower rate of withholding tax.

The announcement made recently by the Minister of Finance indicates that the tax convention will be revised so as to extend the 5% rate to all cases where the United States parent owns control of the Canadian subsidiary. It should be noted, however, that this proposed amendment will not be effective until approved by the United States Congress which may not be until early in 1957.

This change, which will bring the withholding provisions of the convention with the United States into line with the tax treaties entered into more recently with Sweden, Denmark and Ireland, represents an important forward step in the evolution of our tax legislation. It should have the effect of increasing opportunities for investment in Canadian subsidiaries of United States parent companies and thus make available to Canadians a greater share in our expanding economy.

Foreign Investment by Canadians

The present Canadian law provides a much less favourable basis for the taxation of foreign dividends received by Canadian companies than that available under United Kingdom or United States law and thus tends to discourage Canadians from investing in foreign securities. Under United Kingdom and United States law, while the bases of application are somewhat different, a corporation receiving foreign dividends is permitted to deduct from its domestic tax on such dividends not only the foreign withholding tax paid but also substantially all of the profits tax paid to the foreign country at the time the profits were earned. Canadian law, on the other hand, levies no tax on dividends received from a foreign corporation if 25% or more of its shares are owned by the recipient Canadian corporation. In cases where less than 25% ownership exists, however, full Canadian tax rates apply to foreign dividends received and an offset is permitted only with respect to withholding taxes paid to the country of origin. No deduction is permitted for profits taxes paid in the foreign country on the original earnings.

On this basis, except in cases where the foreign corporation is owned to the extent of at least 25%, the provisions of the Canadian law result in a considerable measure of double taxation on foreign profits remitted to Canada in the form of dividends. This arrangement, which places the Canadian investor at an unfair advantage in the world investment markets, cannot help but discourage Canadians from investing abroad. This condition alone provides ample reason for amending our law to conform with the more generous tax credit provisions of the United States and United Kingdom statutes.

The Problem Drinker in Industry

G. A. F. Wainwright

What constitutes an alcoholic? Is it the severe standard set by some credit companies of more than one drink a week? Here Dr. Wainwright, medical officer of Labatts, defines the disease and its inadequate treatment by the majority of Canadian companies.

The problem drinker in industry is one whose continued or repeated drinking interferes with the adequate performance of his work assignment. The term is preferable to its precursor "alcoholic" with its connotation of dissolution. The segment pertaining to his work situation constitutes only one part of the entity of his drinking problem.

Extent of the Problem

About two-thirds of the adult population use alcoholic beverages in varying degree. About one in twenty of these social drinkers develops some problem with his drinking. There are approximately 150,000 problem drinkers in Canada, of whom about 50,000 are in Ontario.[1] Most of these are employed. In industry their detection presents difficulties; a man may have a drinking problem and yet carry on efficiently in his work. So long as he performs adequately and his absenteeism is not great he does not by definition constitute a problem drinker. Depending upon the rigidity of the interpretation of the definition there is a marked variation in the figures submitted relating to the incidence of problem drinking in industry—from 6%, by estimation by the Jellinek Estimation Formula[2] to 3% revealed by other surveys. There is so much concealment and subterfuge resorted to, not only by the individual but by his family and friends in a misguided effort to protect the worker, that it is difficult to determine the actual extent of the problem.

Costs of the Problem

The cost to industry has been described as "Industry's Billion Dollar Hangover". Here, as with figures pertaining to the extent of the prob-

1. Alcoholism Research Bulletin, September 1, 1953. Alcoholism in Ontario, Alc. Research Foundation.

2. World Hlth. Org. Techn. Rep., Ser., No. 48, 1952.

lem, only estimates can be made. The cost to industry per se is probably much less than the general literature would indicate. The task of industry is to produce goods for a profit in order to provide wages for its workers and returns for its investors. To accomplish this, production must be maintained at a constant level. The worker may be functioning below his potential without having this reflect in the output from a machine. If an employee directly concerned with production is absent, he is replaced by a worker from a reserve pool or from a "surplus assignment". Production itself is maintained at a very constant level. The short absences of three days or less, of which the problem drinker is guilty, usually are not covered by sick benefits and the loss reflects itself in the man's pay envelope, rather than in cost to the company.

Nevertheless, the hidden costs resulting from reduced morale, increased accidents and bad public relations, while difficult to assess, are not negligible. Alcoholism is now accepted as a public health problem and as industry carries a heavy tax burden the costs are reflected here. The expense involved in developing executives or skilled workers is often nullified by the problem drinker getting into difficulties at an age when his training program should give results. Certainly the increased absenteeism[3] (22 days per year in contrast to the average of 10 in industry) and the greater accident rate (twice that of the general frequency) result in a marked increase in costs no matter where these costs are assigned.

Portrait of the Problem Drinker in Industry

1. More than 80% are under 50 years of age; one out of four is under 35.
2. Over 50% are married and living with their wives.
3. Three out of four are living in established households.
4. Nine out of ten have lived in their present town for at least two years.
5. Seven out of ten hold jobs involving special skills or responsibilities.
6. Nearly 60% have held steady employment on one job for at least three years and 25% for at least 10 years.

This portrait emerges from a survey conducted on 2,000 consecutive industrial problem drinkers[4]. He is evidently not the itinerant worker, nor the skid-row derelict. His occupational status as determined by Archibald et al in an Ontario survey is:

	%
1. Professional, managerial, proprietory	5.5
2. White collar	7.4

3. Henderson, R. M., Bacon, Seldon D., Problem Drinking; The Yale Plan. Quart. J. Stud. Alc. 14: 247-262, 1953.

4. Page, Robt. et al. The Problem Drinker in Industry. Quart. J. Stud. Alc. 13: 370F396, 1952.

3. Skilled and semi-skilled 48.0
4. Unskilled 29.3
5. Transient or casual 6.3
6. Retired 3.5

He does not constitute a psychiatric entity although, psychologically, he has personality defects; he withstands tensions and frustrations poorly. He has high aspirations with limited accomplishments and tends to be controlled by his emotions rather than his intellect. As yet, however, he cannot be identified by any means other than his alcoholic history. Physiologically he has a little understood defect by which having taken one or two drinks a craving results so that his drinking becomes compulsive.

Course of the Illness

Alcoholism has been recognized by the medical profession as a disease for the past hundred years. The laity have been more reluctant to accept it as such. In his industrial area the problem drinker can usually be allocated to one of three categories. He may be a periodic imbiber who indulges in excessive drinking of a repetitive nature. Subsequently, he may become addicted to alcohol with evidence of loss of control of his drinking and an inability to break the habit. This, in turn, may progress to chronicity resulting in physical and mental impairment. The course of the disease in its entirety tends to conform to a pattern which is fairly constant. The disease shows seven phases—not always sharply delineated in stage or time. The problem drinker, as he relates to industry, does not participate in the later phases.

Phase 1—Social Drinking

The pattern shows little to distinguish the problem drinker from the social drinker, except in regard to the frequency and amount consumed.

Phase 2—Dependent Drinking

The problem drinker begins to indulge in excessive drinking for relief of tensions.

Phase 3—Increased Tolerance

He must consume more liquor to obtain the anaesthetic effects; he resorts to sneaking drinks and gulping drinks. Periods of amnesia (blackouts) characterize this phase.

Phase 4—Loss of Control of Drinking

He becomes dependent upon alcohol resorting to daily evening drinks and heavy weekend drinking. This is the phase marking the onset of the disease of alcoholism and personality changes are concomitant with it.

Phase 5—Rationalization

He ascribes various reasons for his drinking. He "goes on the wagon" for short intervals to prove his ability to do so. This progresses to morning drinking, solitary drinking and excesses obtruding into his work schedule. Personality changes become more evident and he experiences resentments, remorse and deep feelings of guilt. The fear of facing life without alcohol becomes intolerable. This phase usually marks the "point of no return" if he is not salvaged.

Phase 6—Phase of Fear

He now realizes that he must have help if he is to survive. He is prepared to accept hospitalization. Here he may resort to drugs to enable him to carry on.

Phase 7—Phase of Resignation

He resorts to continuous drinking with an acceptance of his derelict condition and its concomitants of organic disease and mental changes.

The disease tends to run its course in from fifteen to twenty-five years. The segment which constitutes the industrial problem drinker involves phases 1 to 4 and usually extends over a period of twelve to fifteen years. By the time he has entered phase 4 he constitutes an industrial problem drinker about whom a decision must be made. If he is not rehabilitated here he does not continue in industry for he becomes unemployable.

Industry's Responsibility

Whether an industry adopts a program for the rehabilitation of the problem drinker or not, a policy should be formulated. The problem is divided into two parts:

1. The employment of an individual from whom a history of alcoholism has been elicited or who is known to be an alcoholic.
2. The disposition of an established employee whose drinking is becoming a matter of concern to the company.

The applicant who has lost a job because of a drinking problem should not be employed by the company until he has shown proof that he has done something constructive about his problem. Many alcoholics may ally themselves with A.A. merely to convince prospective employers of a sincere effort to deal with their problem. This subterfuge is usually not difficult to detect. A participation in the program for a period of one year and a contribution in helping others afflicted with the same illness preclude any ulterior motive.

Failing this he should be engaged in industry for a period of one year in a capacity in which his absenteeism or poor work performance will not disrupt work groups or team efforts; e.g., construction work. It requires a minimum of one year to effect a transference from alcohol. If the loss of a previous job or position does not point up to the individual that he cannot solve his problem without help, it is not wise to accept him.

It is true that some individuals solve the problem for themselves and, without outside assistance, recognize the fact that they cannot drink. This is such a rare occurrence, however, that industry is justified in requiring submission of evidence that this insight has been attained. In the later phases it is common for the individual who does nothing about his problem to gravitate to the type of job in which the work requirements do not conflict too much with his drinking habits.

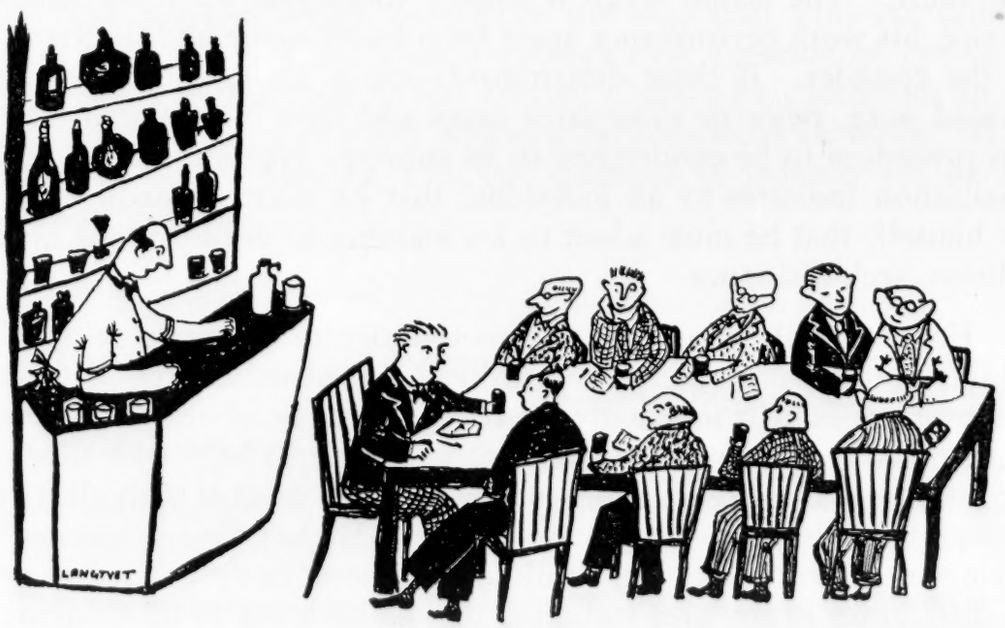
What course should industry pursue with the established employee whose drinking reflects itself in his work assignment? The employer usually interprets the delinquent's problem in the light of his own drinking experience. He condemns him for lack of control and will power. The problem drinker is dealt with solely as a disciplinarian procedure. The action taken is usually contingent upon his length of service, his work performance apart from his drinking and the frequency of the episodes. If these determinants are in his favour he is usually warned once, twice or even three times and then is separated. Nor is this procedure to be condemned in its entirety. Not infrequently such a finalization indicates to an individual that he must assess his problem for himself; that he must admit to his inability to drink and, of his own volition, seek assistance.

However, this procedure does not recognize the potentiality of rehabilitating the alcoholic. Admittedly, he presents a difficult reclamation problem as he is inherently a recedivist. To be rehabilitated he must be prepared to recognize the fact that if he accepts help with this problem that he is inviting recognition as a problem drinker with all its connotations. This is difficult for him to do. He has always resented any infringement on his right to drink and has steadfastly refused to relate his difficulties in any area including that of his work to his drinking ac-

tivities. Management cannot "protect" the problem drinker. The problem is primarily his own; he must sincerely desire to terminate his drinking. He must appreciate the fact that from his past experience his reaction to alcohol differs from that of the social drinker and that he can never learn to drink "normally". He must learn that life without alcohol is more rewarding than life with alcohol. He must believe that if he is prepared to make a sustained effort that he is quite capable of learning to live without alcohol. Industry has not reflected the interest in the problem that has been evidenced sociologically in the past ten years. Management today is very cost conscious. The employee must be presumed valuable enough to the company to justify the cost of his rehabilitation. The cost proves the stumbling block to the institution of more industrial programmes—rehabilitation rarely produces an entry on the credit side of the ledger. Human relations in industry are being stressed today and until evidence can be submitted to management that salvaging the problem drinker is financially sound, the humanitarian approach must be resorted to.

Several companies in the United States and Canada have undertaken programmes for the rehabilitation of the problem drinker. Among these are the du Pont Company, the Allis-Chalmers Company, the Eastman-Kodak Company, General Motors Corporation and the Bell Telephone Company of Canada. Some have recognized the condition officially as a medical problem and allow sickness indemnity and pension in selected cases. The majority of these programmes are modifications of the Yale Plan[5]—a flexible programme which is slanted towards:

5. Bell, R. G., Clinical Orientation to Alcohol. Indust. Med. & Surg. 21: 25: - 260, 1952.



1. The early recognition of the employee with a drinking problem.
2. The rehabilitation of the employee where it is justified.
3. The establishment of a consistent basis for termination when rehabilitation does not, from the company's viewpoint, appear justified.

Consultation Clinics

In 1952 Consolidated Edison volunteered to underwrite the cost of the Consultation Clinic for Alcoholism at the University Hospital of the New York University, Bellevue Medical Centre. This clinic is the first to be devoted exclusively to the problem drinker in industry. There are fourteen companies making referrals to the Clinic. Of these, two companies refer employees foı appraisal to determine if rehabilitation is justified. Primarily, the purpose of the Clinic is to enable the referral to control his drinking to the point at which it does not interfere with his work situation. The broader aim, of course, is to rehabilitate the problem drinker in toto, not just as it pertains to the work area.

Of thirty-five patients referred by one company to the Consultation Clinic for Alcoholism,[6] twenty were subsequently discharged by their companies because of further drinking episodes while they were on the probationary period during which they were undergoing treatment. None of these continued treatment at the Clinic subsequent to their discharge. The significance of this is evident. These referrals were primarily interested, not in the solution of a drinking problem, but in maintaining their jobs. One hundred and thirty-five of one hundred and eighty referrals from all companies who accepted treatment were able to control their drinking sufficiently well to maintain their jobs. However, of 23 problem drinkers who were referred, but refused treatment, 13 of these were able to retain their jobs.

The majority of the patients reported are in the older age group (45-60). In this age group their drinking had become evident in the work situation. With them, their motivation during probation was better because of increased difficulty in getting work if separated, particularly if they were dismissed as alcoholics.

Education Programmes

Education must be the precursor of any programme. Management and particularly the supervisory group must be taught the objectives of the programme. The worker should be instructed in the early phases of the disease.

6. Bowman, Karl M., The Treatment of Alcoholism. Quart. J. Stud. Alc. 17: 318: 325, 1956.

When a programme is first instituted, only the advanced cases are brought to light. The longer the programme is in effect, if it is successful, the more problems in the earlier phases will be revealed. The foremen or supervisory groups are best able to detect evidence of uncontrolled drinking. Frequent short absences, particularly after holidays and pay days, are significant. Personality changes resulting in bad inter-personal relations within the group should not be ignored. The medical department should not be used in this case-finding programme. Any suspicion that information imparted at a periodic examination or consultation is subsequently disclosed to management, jeopardizes the reputation of the department and destroys the essential doctor-patient relationship. Any data pertaining to the problem released by the medical department should be sanctioned by the employee in writing.

Role of Company Physician

The company physician should not be asked to function in a disciplinarian capacity although he should be accessible for consultation relative to the problem. It has been found more expedient for an industry to employ agencies outside, rather than within the industry. It is difficult for the employee to understand that his progress in the work environment is being viewed impersonally.

Bowman[6] states that we are not making satisfactory progress in the treatment of alcoholism. Certainly presently functioning programmes are not reaching the incipient problem drinker and figures[7] indicate only a very small percentage of advanced cases are being detected and referred for treatment. There may yet be devised tests that will detect the incipient drinker as we now detect the incipient diabetic. In the meantime, we can still achieve a limited amount with the various existing techniques and a defeatist attitude is to be condemned.

Duties of Management

Management should assess the employee; if he is considered to be worth salvaging, the issue should be faced squarely with him. He should be placed on probation with his retention being contingent upon his contact with a proper agency outside the company. Even though this motivation is extrinsic, it may still be effective. Whether or not he accepts treatment, separation is justified if his drinking, as it pertains to his work, is not in the future controlled. The institution of such a probation period may well act as a deterrent for early problem drinkers.

7. Pfeffer, Arnold Z. et al. A Treatment Program for the Alcoholic in Industry. J.A.M.A., Vol. 161—No. 9 pp. 827-836, 1956.

Most experienced workers in the field of alcoholism feel that the problem drinker cannot be helped unless he himself is motivated toward treatment. Usually, he has to experience some crisis or disaster to provide the motivation. In industry, the problem drinker has not usually experienced the later phases of alcoholism with which such crises are associated. Herein lies the value of placing him on probation; his retention in industry is contingent upon his control of his drinking, even though he may accept it with resentment.

Originally, the alcoholic was unreservedly condemned; he was considered to be completely lacking in willpower and moral turpitude. Subsequently, the pendulum swung to the other extreme and the alcoholic was considered to be a victim of psychological defects which precluded his ability to contribute to his own reclamation. A constructive attitude must present a compromise between these two extremes. His successful rehabilitation in industry should be facilitated by industry's recognition of the defects which distinguish him from a social drinker and the extension to him of an opportunity to do something constructive about his problem. If this extension takes the form of probation and referral to competent treatment facilities, then the humanitarian obligations are being met by industry. Given this opportunity, his final rehabilitation lies with the problem drinker himself.

Summary

1. The problem drinker in industry is one segment of the total picture of alcoholism. By definition, so long as his work is adequate and his absenteeism acceptable he is not an industrial problem drinker.

2. Between 3% and 6% of industrial workers have a drinking problem which is reflected in the work situation.

3. The costs of the problem to industry itself are not greatly reflected in loss of production and increased wages. Hidden costs and the reflection in taxes however, make the problem significant to industry.

4. The problem drinker in industry usually constitutes a responsible citizen. If his disease progresses into the late phases he does not remain in industry.

5. A problem drinker who has previously lost a job because of his drinking should not be employed until he has shown proof that he has done something constructive about his problem.

6. Programmes for the rehabilitation of the problem drinker in industry with particular reference to the Consultation Clinic for Alcoholism are discussed.

7. The treatment of the problem drinker in industry has not made satisfactory progress. From a financial viewpoint, a programme is not a sound investment for management. Management must be convinced that the undertaking is worthwhile from the viewpoint of human relations.

8. Industry can make a contribution by the introduction of a probation system with referral during probation to a responsible individual or group especially trained in this area. Given this co-operation by management, it is incumbent on the problem drinker to rehabilitate himself.

"Plus C'a Change . . ."

"The delegate of Great Britain observes that these authors were speaking of natural straits, and not artificial passages, such as the Suez Canal or the Caledonian Canal, created by human industry within the territory of an independent Power. It cannot be admitted that such channels of communication, although connecting two seas, should be burdened with an international servitude."—*Sir Julian Pauncefort representing Britain, Paris, 1885.*

"IN THE NAME OF ALMIGHTY GOD,

Her Majesty the Queen of the United Kingdom of Great Britain, Ireland, Empress of India; His Majesty the Emperor of Germany, King of Prussia; His Majesty the Emperor of Austria, King of Bohemia, etc., and Apostolic King of Hungary; His Majesty the King of Spain and in the name of the Queen Regent of the Kingdom; President of the French Republic; His Majesty the King of Italy; His Majesty the King of the Netherlands, Grand Duke of Luxemburg, etc.; His Majesty the Emperor of all the Russias; His Majesty the Emperor of the Ottomans; wishing to establish by a CONVENTIONAL ACT a definite system destined to guarantee at all times, and for all the Powers the free use of the Suez Maritime Canal . . . *Suez Canal Treaty, 1888.*

"The status of the Suez Canal is quite different from that of other artificial waterways which serve as arteries of international communication, for it is fixed by that multipartite international agreement to which I have just referred. The Suez Canal was an international enterprise from the very beginning, and then a few years after it was opened all the principal powers of Europe joined with the Ottoman Empire, acting for Egypt, to regulate its traffic, its neutrality and its defence . . .

"The United Kingdom's pretensions to sole responsibility for safeguarding the Canal cannot be reconciled with the principle of universality, equality and neutrality established by the 1888 agreement."

—*Nokrashy Pasha, representing Egypt at U.N., 1947.*

Has the President Reached the Top? Trends in Decision Making

James T. McCay

Must the President always be busy? Whom can he ask to share in policy-making—in setting objectives—in planning organizational changes? How much should he delegate, and to whom? How can he get his subordinates to delegate more effectively? Here executive methods consultant, James T. McCay, presents a provocative personal prediction in problems ahead for management.

FOR purposes of analysis we can distinguish five different orders of decision-making. These range from the simplest, most specific order, Decisions-Action, successively through Decisions-Operation, Decisions-Organization, Decisions-Objective, to the most general—Decisions-Philosophy.

In Diagram No. 1, these five orders are arranged in a hierarchy.

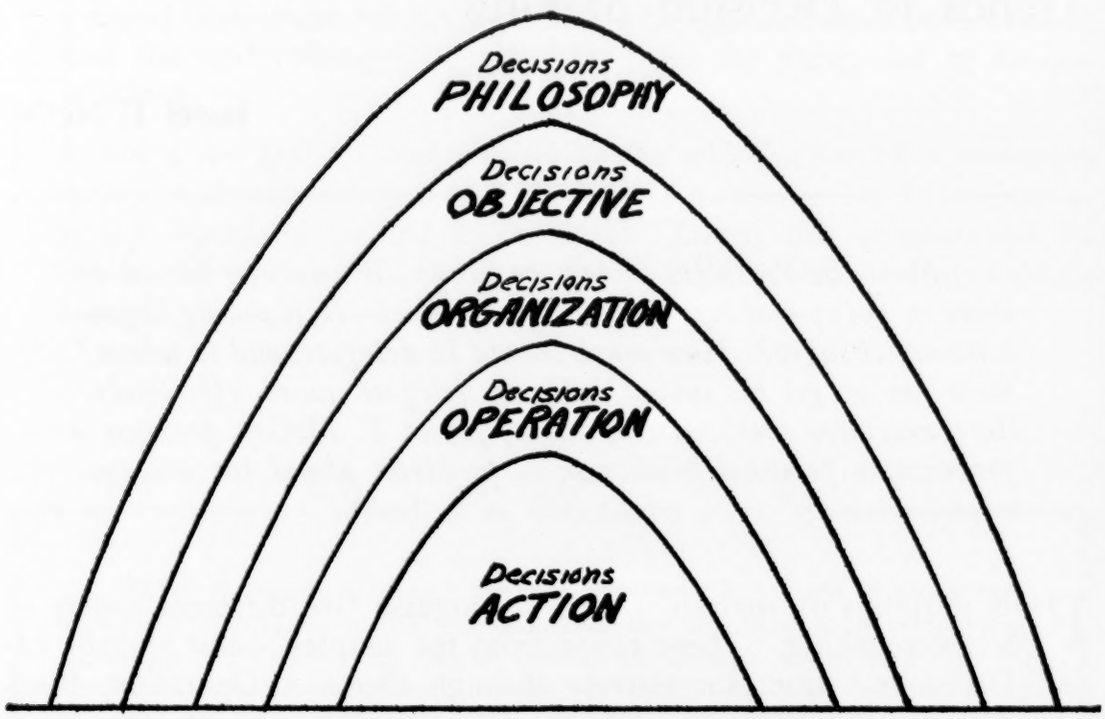
Decisions-Action

Most of the decisions made throughout the day fall into this class: What clothes shall I wear? What shall I eat for breakfast? Shall I write this letter now? Shall I donate to this charity? Shall I take a taxi or walk? These are the questions you can answer with little study or consultation, and do so mostly on the spur of the moment. Throughout a company, typical decisions-action would be: where to file the letter; where to post the entry; when to call on a prospect; when to stop a machine; when to end an interview. Decisions-Action answer at the action level the questions, **when, where,** and **with what.**

Decisions Operation

These decisions involve methods and procedures: What will be the layout of our new office? Is the form necessary? How much credit can we extend to this new customer? Shall we install automatic data-processing equipment? Shall we change our pension scheme? Shall we replace the equipment in our shipping room? Decisions on questions

Diagram No. 1



ORDERS OF DECISION MAKING

like these demand systematic information-gathering; discussion with all the people who will be directly concerned; and consideration of a range of alternatives. When a decision-operation is made it creates many decisions-action. Decisions-operation may be thought of as asking the question, **how.**

Decisions-Organization

At this order you are considering the relationships between people. Shall we establish an "assistant to" position? Shall we centralize our staff functions in the head office? Shall we eliminate field supervisors? Shall we have a working board or an outside board? Will the personnel department handle interviewing and hiring, or will that be a function of line management? To come up with a workable answer to these questions demands even more time spent on information-gathering, more time spent in discussion, and a consideration of a wider range of alternatives than is usually the case when making decisions-operation. When a decision-organization is made it gives rise to a number of decisions-operation. Decisions-organization may be thought of as answering the question, **who.**

Decisions-Objective

At this order you are dealing with goals. It is common practice today for objectives to be set in the area of marketing—dollar volume, percent share of market, new products, obsolete products, etc., for capital expenditures and for profitability. Some companies are recognizing the desirability of setting objectives for productivity, for innovation, for manager performance and development, for worker performance and attitude, and for public responsibility. A high quality decision-objective calls upon the information gathering capacity of the whole organization, involves discussion between people at every level in the organization, demands the consideration of a wide range of alternatives. When a decision-objective has been agreed upon it gives birth to a host of decisions in the lower orders of the decision-making hierarchy. Decisions-objective answer the question, "**Where are we going?**"

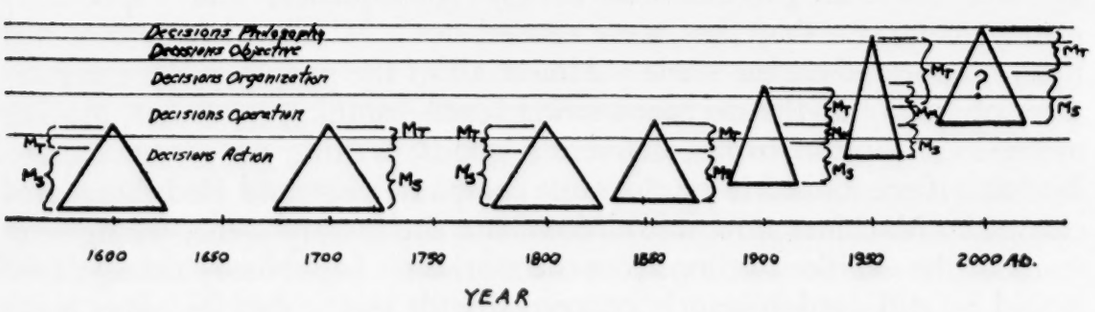
Decisions-Philosophy

Every company has a philosophy of management. It usually is made up of the assumptions and values of its leader. Seldom, however, are these assumptions and values explicitly stated. They are implied in such statements as: The customer is always right. Our business is to give service. We expect a fair day's work for a fair day's pay. The Union is out for all it can get.

Today there are signs that a few executives are trying to discover, define, evaluate, and communicate a philosophy for their company. To the degree they can do this they will cut down on wasted effort at the action level, eliminate conflicts on decisions-operation between different sections of their company, and increase understanding and acceptance of decisions-organization and -objective. Decisions-Philosophy are concerned with answers to the question, "**What is right?**"

Diagram No. 2

TRENDS IN DECISION MAKING



MT—Top Management MM—Middle Management MS—Supervisory Management

At first glance it might appear that decisions-action belong to the first level of management; decisions-operation and decisions-organization to middle management; and decisions-objective and decisions-philosophy to top management. This illusion is related to the words we are using. Just as the word decision-making has different meanings at each order of abstraction and is therefore multiordinal, so each of the words, action, operation, organization, objective, and philosophy, mean different things at different orders of abstraction. Thus, the foreman of the machine shop has action-decisions to make, operational decisions in the layout of his shop, organizational decisions when he shifts his men around, objective-decisions when he sets production targets, and is governed by his philosophical decisions in all of his judgments.

The plant manager, too, makes decisions at each order of decision-making. Although the president, the plant manager, and the machine shop foreman may all be making decisions-objective therefore, decisions-objective at the corporate level is not the same activity as decisions-objective at the plant level which, in turn, is not the same activity as decisions-objective at the machine shop level. To avoid confusion when we discuss decision-making then, we must index the order of abstraction, the time, and the circumstances we are thinking of.

Trends in Decision-Making

Having made a differentiation amongst the various activities called decision-making, it is now possible to ask and answer some leading questions. In the most advanced organizations of each period, who have been making the different kinds of decisions? In the most advanced organizations of the next fifty years, who will be making the different kinds of decisions? Even a crude answer to these questions points up a trend that is taking place in decision-making. For the purposes of comparison I shall speak of only three levels of management: supervisory or first level management, middle management, and top management.

Let us look first at a company in 1850. Studied decision-making probably did not occur above the level of decisions-operation. Top management made all the decisions of any consequence, and supervisory management saw that they were carried out. Middle management had not yet appeared on the scene. Almost all of the people in the company were operating at the decisions-action level—running machines, moving materials, filling in forms, delivering goods, waiting on customers, etc. By 1900, if we looked in on the same company we would find things had changed. Machines now would dominate the factory scene, taking over many of the decisions-action from the workers. Supervisory management would be still predominantly concerned with seeing that decisions made from above were put into action. A new group, middle management,

would be making decisions-operation. Top management would now be considering decisions-organization as well as decisions-operation.

By 1950, many more decisions-action have been taken over by machines and electrical equipment. The workers, now predominantly skilled, are involved in both decisions-action and decisions-operation. Supervisory management deals with decisions-operation and, to a degree, with decisions-organization. Middle management operates in the span from decisions-operation through decisions-organization to some aspects of decisions-objective. Top management ranges from decisions-organization through decisions-objective to the beginnings of decision-philosophy.

What may the situation be like in 2000 A.D.? Decisions-action may largely be taken over by mechanical and electronic devices. Many decisions-operation, too, will likely be handled by automatic data-processing and electronic equipment. The unskilled working class may have entirely disappeared. It is quite possible that middle management, as we now know it, will also have disappeared. The workers of today will have become the supervisors of our mechanical and electrical workers of tomorrow. A large group of specialists will supply these supervisors with the necessary data to feed their charges. Top management may be primarily concerned with decisions-philosophy and long-range planning.

If this is the pattern which is emerging, how can awareness of this trend help you in your planning for tomorrow?

Planning For Tomorrow

Although Diagram 2 is almost entirely subjective, it is helpful as a thinking tool. The diagram suggests that the trend in decision-making may be following that of the growth of man's knowledge and the growing complexity of business. If so, it is an exponential relationship, like compound interest which tends to grow at ever-increasing speed. It says that the next ten years will see more than double the change which has occurred since the end of World War II. The process of machines taking over decisions-action has been going on for over 200 years. The rate at which this has been taking place has now increased, however, to the point that it is obvious to most people, and is popularly referred to as automation. It is generally agreed that an increasing number of workers are going to be displaced by machines and automatic devices. We cannot afford, however, to push the worker out of business and industry unless we are prepared to support him in idleness. Actually, we have no choice. We must educate him to make decisions-operation, and elevate him to supervision. This, in turn, will cut down the need for much of middle management. The overlapping of functions between various levels of

management in many companies today already foreshadows the pattern of things to come. In those companies where top management insists on having a hand in decisions-operation, the congestion of ideas is almost suffocating.

At the rate which the complexity of business is now growing, executives who continue to dabble in the lower orders of decision-making may well be condemning their organizations to extinction. The situation seems somewhat analogous to an Air Marshal planning his strategy while leading a squadron of supersonic jet planes into the attack.

The importance of delegation has been discussed at length in many books on administrative practices. They point out that a man who wishes to move upwards in an organization must learn to delegate. It would now appear, however, that to maintain a position, let alone rise from it, a man must continuously delegate parts of his work every year. Continuous delegation might be compared to the steady dropping of ballast in order to hold altitude in a leaking balloon.

Prodigious Educational Effort Needed

Planning for tomorrow thus, calls for a most prodigious educational effort, educating workers to become skilled technicians and operations planners; educating supervisory and middle management to become skilled in operations research, organization planning, and the like; educating the few who have aptitudes and abilities to exist in the rarefied atmosphere of abstract principles, assumptions, and values, to keep extending the range of management philosophy. What are the resources that an organization would need to meet this challenge?

It would need first of all an awareness on the part of every manager that one of his primary functions was that of education. He must become versed in the conditions which favour the growth of people. He must have a strong desire to grow himself, to seek to learn from those around him, and to practise so far as he can the principles to which he subscribes.

It would need an awareness of the assumptions of management, and the weeding out of all those assumptions to which the majority of people in the organization could not subscribe. Amongst the assumptions that would demand particular study would be those concerning the methods of rewarding people in the organization. Means would have to be found to encourage those who had no desire to move upwards in the organization but who could make a contribution as specialists or professionals.

It would need a continuing supply of high calibre, educated and educable young people. As Peter Drucker states in his recent book, "The Practice of Management":

"The modern business enterprise for its survival needs to be able to recruit the ablest, best educated, and most dedicated young men into its service. To attract and to hold such men, a promise of a career, of a living, or of economic success is not enough. The enterprise must be able to give such men a vision and a sense of mission. It must be able to satisfy their desire for a meaningful contribution to their community and society."

This suggests another, and possibly the most important, resource ensuring survival. The organizations that flourish will be led by men who cultivate a high rate of personal growth; men who set a pattern of growth for their people; men who are aware of what they do not know; who think in relative rather than absolute terms; who accept themselves and others.

Many companies have become aware of the need for the development of their future foremen and vice-presidents. Many have launched extensive educational programmes during the past ten years. To meet the needs envisaged by the trend I have been describing, however, there would also be a particular need for the continuing education and development of top management itself—development of the increasing breadth of knowledge, range of skills, and depth of wisdom necessary to discover goals that men will strive towards together.

"Dead Horses"

"My text comes from that well known philosophical accountant—Ross Walker, who said, warning the 1949 class against the foibles of his brother accountants, "Some of them refuse to bury their old dead horse because they love him so much". This applies not only to accountants but to all of us—continually.

"I believe there are two kinds of dead horses: first—preconceived ideas; these are the hardest to bury, but they are the easiest to identify, particularly after associating with a group of highly intelligent men of diverse interests for five weeks. Secondly—out-of-date or obsolete ideas; these are easy to bury if you can get to grips with them. Your bright young colt of yester-year may be ready for the glue factory, but it may take all of your skill to determine whether that is so, or whether it is just in a state of suspended animation.

"I'm sure that each of you arrived at this course with your quota of equine impedimenta. No doubt you have got rid of some of it. If I can give you any advice I would say—keep alert to these deceased quadrupeds and get rid of them as soon as there is no life in them, for there is one paradox about dead horses—they breed, particularly when carried by someone in authority."

—Envoi to MTC class of 1956 by H. S. Sutherland of Shawinigan Chemicals.

Operations Research in Canada

Douglas Sherk

"In Canada the only operational research labelled as such is Abrams made one of the first published statements concerning the use of Operations Research in Canada:

"In Canada the only operational reserch labelled as such is conducted by a group in the Defence Research Board, which has branches operating throughout the various services. However, at least one major Canadian company is considering establishment of its own operational research department. What the pattern of development will be remains to be seen. There are many persons in Canada doing Operations Research, albeit restricted, but without the label, while those who bear the label are essentially confined to the Department of National Defence."

Since 1952, *however, interest in Operations Research as a tool of management has greatly increased in Canada. The Operations Research Society of Toronto was founded in October* 1955, *and several Canadian companies attended in Ottawa the January* 1956 *Annual Meeting of the Operations Research Society of America. After circularizing the* 67 *member companies of the Canadian organization in* 1956, *the author examines the current use of Operations Research.*

"OPERATIONS Research" is the term now commonly given to the application of scientific method to business problems. The problem—or "operation"—is studied and defined; the relevant factors are selected; quantitative values are determined for each and an estimate made of its effect on the outcome of the operation; finally, a course of action is recommended to produce the most favourable results.

This procedure often involves developing and then testing a mathematical model; with this model, each of the different factors can be varied to determine their effect. Electronic computational equipment is employed on very complex problems.

The object of Operations Research is to take some of the "guesswork" from management decisions. It presents the alternative courses of action and the risks, costs, and payoffs involved in each. Having

the results of the O.R. study before him, the executive then knows where he must apply his own judgment, or "play his hunches".

One possible cause of misunderstanding may be the very words "Operations Research". Many organizations confuse Operations Research with market research, fundamental research, or the determination of operating procedures. The word "operations" as used by the layman means "day-to-day activities", while in the title "Operations Research" an "operation" may embrace any problem, process, activity or system of variables. Furthermore, the word "research" conjures up to many the setting up of a basic research establishment. While, therefore, "Operations Research" may be a strictly accurate name for these scientific techniques, this misuse of two common layman's words creates misunderstanding of Operations Research among industrial and business organizations.

Procedure of Investigation

Through surveying those organizations currently using Operations Research, this study attempts to trace its past history and present place, the types of problems to which its techniques have been applied, the training required of Operations Research personnel, and the opinion of companies regarding the effectiveness of Operations Research in their own organization.

The Operations Research Society of Toronto and its President, Dr. P. Sandiford, helped by providing a list of all Canadian companies known to be using Operations Research, or believed to be interested. A questionnaire was mailed to each of these sixty-seven organizations.

Extent of Operations Research Activity

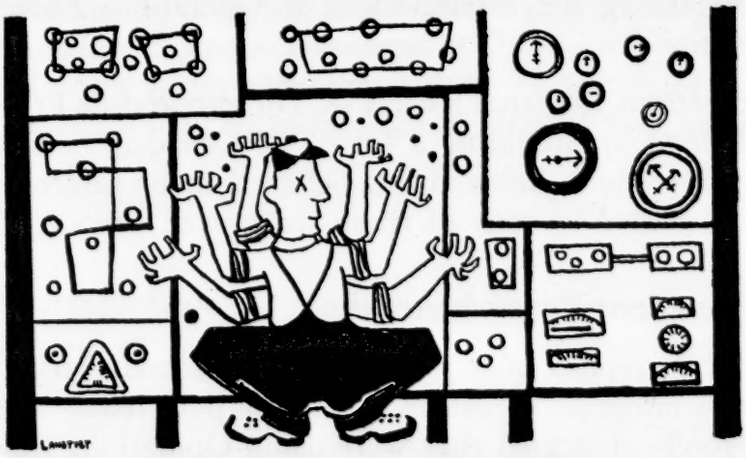
Of fifty-one replies only ten companies—mostly large ones, representing a wide range of industries, including petroleum, steel, electrical, textile, and food—indicated they were using Operations Research. Five firms had been engaged in O.R. work only since 1953, three others since 1952. External influences such as readings and conferences introduced O.R. to a majority of them. Most had formed a separate staff department or group to handle Operations Research, consisting of three to four personnel. To date, there appears to be no regular place in the organization chart for Operations Research groups.

Most of the 10 companies planned to increase their Operations Research in 1956. Only four companies reported their expenditure on Operations Research in 1955, the amounts ranging from $5,000 to $40,000. Three of these companies forecast an increase for 1956; two planned to double their budgets.

Applications of Operation Research

Operations Research techniques have been applied to Market Research, Advertising, Sales, Production Control, Warehousing, Product Policy Decisions, Re-equipment Decisions, and Process Control. One reporting company used O.R. to determine the sales potential of retail outlets. Another used multiple correlations and marginal analyses, with models based on historical and projected data, to evaluate how much to spend on advertising. One company employed linear programming in the selection of the optimum location and number of distribution outlets. At least two firms were using mathematical programming to determine the optimum use of production facilities.

One company, through the use of the Queuing Theory, Servomechanism theory, and the Theory of Games, was working on the design of a forecasting-ordering-delivering system for one of its consumer products. Linear programming and Game Theory were used to decide the "product mix" by one company. Mathematical analogues were used by another to solve re-equipment problems. Probability Theory was found useful by one organization when working on such a "commonplace" problem as when to purchase new trucks!



Training Required of O.R. Personnel

Contrary to common belief, the personnel engaged in Operations Research work are not exclusively mathematicians. Mathematics and physics, engineering, and general production or business backgrounds are all represented.

The heads of the O.R. groups included two Ph.D.'s (Maths & Physics and Chem. Engineering), two Masters of Business Administration with Engineering training, three Engineers, and one man with no formal degree, but widely experienced. Three of the above had ex-

perience in research, two in production, two in engineering, one in accounting. Average age of the group heads was 37.5 years; the ages of other O.R. personnel ran from 25 to 39.

The "ideal" training for Operations Research work, most companies agreed, was a first class university training but they were about equally divided as to subject, half preferring Mathematics and Physics, half favouring Engineering plus Business Administration.

However, many respondents stressed personal qualities and the value of a varied experience in company operations above any specific academic training. The desirable personal qualities most frequently mentioned were: a skillful, enquiring mind; a highly objective research approach; imagination; ability to get on well with people.

Conclusions

Operations Research has received attention as a management technique by Canadian business and industry only in very recent years, particularly since 1953. Perhaps because of this fact, some disagreement exists as to what Operations Research really is.

This lack of understanding of Operations Research and its objectives constitutes the main problem which has confronted Operations Research workers in their day-to-day relations with operating personnel. Hand-in-hand with this problem, there has existed a shortage of trained Operations Research workers.

Although he should have a good university background, a properly-trained Operations Research worker should have all-round practical experience, and possess certain personal qualities such as a "highly-objective research approach" and "ability to get on well with people."

The shortage of such persons, together with the observation that the very title "Operations Research" is a somewhat abstract and possibly confusing usage of two common layman's words, might suggest that the academic side of Operations Research has received most of the stress until now. There is some lack of communication between O.R. personnel and operating personnel because the man in the operating level regards Operations Research as "high-fallutin' " and O.R. workers as "long-hairs" or "professors." One solution to this problem of understanding is through direct education of operating personnel, starting with top management.

Regardless of the difficulties confronting organizations attempting to use Operations Research, its techniques are being applied in an increasingly wide variety of problems and industries. Furthermore, most of the companies using Operations Research feel that their application

of it has been, on the whole, a success. Perhaps one of the most significant observations from the survey is the fact that two companies doubled their Operations Research budget for the current year, compared with 1955.

Operations Research is likely faced with much the same problems as those confronting any new management technique in its infancy. Through continuous education and publicity of successful applications, Operations Research appears certain to become established as a widely-recognized and extremely useful technique of modern management in Canada.

Key to Progress - The Uncommon Man

. . . "Business, unfortunately, is too often judged in black and white . . . But emphasis on things which are wrong must not be allowed to obscure the things which are right; that economic progress of the most monumental kind has come about through the business process.

"Much has been said in recent years of the "new type of businessman", as if, by some process of sexless eugenics, the bull terriers and bloodhounds of the business past had been crossbred to produce a race of intelligent and kindly poodles . . . men will always reflect the society in which they live, will respond to its pressures, its deals, and its customs. As society as a whole develops and grows both spiritually and materially, the individuals comprising it will, on the average, grow and develop with it. In business endeavour, there is an added pressure for conformity to the public interest, arising simply out of the numbers of people involved in any given management decision.

"The change over the years from the responsible individual to the responsible group has greatly increased emphasis on continuity of a given enterprise . . . over the long stretch of corporate life, no business can prosper unless it serves the public interest in all of its many facets. And, as a business develops and its policy making decisions are delegated to an ever-increasing number of people, business conduct will in itself reflect the public interest . . .

"Behind every advance of the human race is a germ of creation growing in the mind of some lone individual, an individual whose dreams waken him in the night while others lie contentedly asleep. We heed those dreams, for today's dreams represent tomorrow's realities. Yet, in the very nature of our mass effort, there lies this great danger that the individual will be conformed and shaped to the general pattern, with the loss of his unique, original contributions. The great problem is to develop within the framework of the group the creative genius of the individual. Unless we can guarantee the encouragement and fruitfulness of the uncommon man, the future will lose for all men its virtue, its brightness, and its promise."

—Address to American Newspaper Publishers Association, 1956 by Crawford H. Greenewalt, President of E. I. DuPont de Nemours.

The Fear of American Investment

Robert Solo

Recently the Dominion Bureau of Statistics reported that between 1948-1953 American capital holdings in Canadian mining, refineries and petroleum had grown from 37% to 55% and in manufacturing industries from 38% to 43%. Total foreign investment in Canada had grown from $5,000,000,000 to $9,600,000,000 in 1953, of which $7,500,000,000 represented investments in companies owned outside Canada.

Here are the reactions of an American, teaching at McGill University, to publicly expressed fears that Canada is threatened by American-dominated 'economic colonialism', with the awful fate that the United States forced during so many years on the so-called banana republics of Latin America.

WHEN examining the ominous statistic 'American Investment', the critic does not see Joseph Swartz with a struggling appliance business in Three Rivers, or Antonio Capelino with his laundry business in Kingston. Instead the critic imagines an abstract political power, a single octopus-like body that entangles another, smaller creature. The power of the United States as a political entity should not be confused with the activities of individuals of American origin or American citizenship who happen to do business in Canada.

Suppose that there is a bottle top factory in Shawinigan. Precisely what difference will it make if the factory is run by a businessman who hails from Detroit rather than from Toronto, or if the home office of the factory is in Buffalo rather than in Hamilton? Whether the owner-manager comes from Boston or from Halifax, he will be interested in making profits and expanding his operations and (one hopes) he will run his factory efficiently, making good bottle tops at a low cost in order to achieve his purposes. The businessman has an essential service to perform. It is to the interest of the community that that service be performed well, and that those who perform it do not abuse their power. The effective business leader is rare. He must be controlled, but he must also be cherished for he gives much more than he takes. And the question of a businessman's national origin surely is not relevant to Canada's real problem of evaluating his effectiveness, making full use

of his ability, and controlling the abuses of his power, in monopolies, for example, or in labour relations, so that the interests of the community will be served.

It is a fallacy to suppose that the American origins of individuals doing business in Canada can be meaningfully related to the power of the United States as a political entity vis-a-vis that of Canada. Indeed, if businessmen of American (or any national) origin increase the productivity and prosperity of Canada, they will, through that contribution, increase the political power of the Canadian community vis-a-vis the United States and/or any other nation.

The Political Power of Big Business

But we are not dealing here only with individual businessmen who choose to invest their savings in Canada, or who choose to exert their energies in the development of Canadian enterprise. We are dealing, perhaps in a more important way, with the giant American corporation. Inasmuch as it is the great corporation that operates through subsidiaries or branches in Canada, does the problem of political domination arise?

How specifically "American" is the gigantic American corporation? The legal ownership of these great companies is scattered over the whole world. There are Canadians, Britons, Germans, Frenchmen, Chinese and Indians and the nationals of all the communities where men are allowed to buy and own securities, as well as Americans, who "own these companies". It is generally agreed, moreover, that the "ownership" of these great companies has not much to do with the control of their operations and policies. It does not seem possible to generalize on the locus or nature of corporate control. What may be observed, however, is that branches or subsidiaries absorb the interests and viewpoint of the locale in which they are, and that managerial talent is recruited wherever it can be found. The great modern corporation, whether its official domicile is Canadian, British or American, or any other, is essentially a vast, quasi-political entity, international in its affiliations, extranational in its interests and purposes.

Real problems arise for government from the very existence of these colossal aggregates of economic power, but such is the case regardless of the national label which they happen to wear. Real problems for government control arise out of the international affiliations of companies, since international strategic interests may diverge from the commercial interests of international companies, again regardless of the national label the company wears. There is a special problem of investigating and controlling the activities of companies operating in

Canada but domiciled elsewhere, creating the need for inter-jurisdictional cooperation. This could probably be arranged between the United States and Canada should a clear need arise for it. Indeed, it has been Canada rather than the United States that has been chiefly remiss in the willingness to extend such cooperation. Thus when an American grand jury sought to subpoena the records of the Canadian International Paper Company as part of an anti-monopoly prosecution against this company with its large operations in the United States, a special law was passed in Canada (The Business Records Protection Act. 1. Rev. Stat. of Ontario 1950, ch. 44) designed to frustrate the examination of such records.

It can be argued that high officials of the great American corporations have influence over the political apparatus of the United States; for, with their prestige and great funds at their disposal, these companies can as a "lobby" exert pressure on Congress. Thus this power in American politics might presumably press the Government of the United States to use its political power against the Canadian Government in favour of these companies. This must have been what politicians and press had in mind when they recalled "the fate" of the "banana republics" of Latin America. Whatever fate the Americans might once have imposed on the banana republics, the idea that the United States marines may penetrate the upper St. Lawrence, land on the shores of Quebec and effect a coup d'etat against the regime of Duplessis, is in the realm of fantasy. Pressures of sorts have been, and will continue to be exerted by businesses able to exert influence in the American Government, though it has been trade rather than investment which has been the usual occasion for such pressures. (President Eisenhower has raised with Prime Minister St. Laurent the issue of a Canadian policy that sought to discriminate against Time Magazine and similar publications. Granted that these great corporations, straddling national boundaries, may induce some pressure by the American Government in defence of their interests, a highly important counter-balancing consideration is involved.

Canadian Ambassador Has Support of Canadian 'Lobby'

While Canadians, inevitably and deeply effected by American economic policy, may regard as inadequate the present mechanisms whereby Canadian interests are represented in the formulation of U. S. policy, the general economic interest of Canada is given an ever greater weight in the high councils of the American Government precisely because of the American investment in Canada. The great international corporation, with its complexity of activities bound into both Canadian and American economies, must defend its interest in the Canadian economy and inevitably becomes a "Canadian lobby", advocating its views at

policy-making levels. The long-wanted, long-delayed St. Lawrence Seaway needed the support of a great American corporation and its chief official Mr. George Humphry, (now Secretary of the Treasury) before being finally put through the Congressional mill. Consider the enormous and disproportionate power wielded by the politically and economically trivial, independent feudalisms of Arabia. Who are the constant and harshly articulate spokesmen for the interests of these feudal communities other than the great corporations that have interests rooted in Near Eastern oilfields? Far from endangering the independence of these Arab communities, international corporate investment has enormously extended their independent power.

The Economics of American Investment

There remains the question of the economic impact of American investment in Canada. On economic grounds, should American investment in Canada be encouraged, limited, or generally discouraged? What is the economic cost of American investment?

The first question, prerequisite to the evaluation of American investment in Canada, is whether investment per se is or is not desirable from the point of view of the Canadian community as a whole. It is universally agreed that such investment, made by Canadians themselves for example, is highly desirable. But why? Only if we understand why investment generally is desirable can we evaluate the economic implications of American investment in Canada.

The answer to this first question is simple enough. It is presumed that investment is undertaken only for the purpose of producing that which has economic value, and therefore that the general effect of investment is to increase the economic value of the social output. Granted that any investment increases the real value of the social product, who benefits from that increase in social product? How is the increased national output shared? Who are the effective claimants to it?

There are several claimants who benefit, including (without meaning to imply any order of priority) the following: the consumer benefits through lower prices, higher quality, and a wider range of products from which to chose; labour benefits through higher wages and salaries as a share of increased productivity, through fuller employment as a result of increased investment, and through a widening of the range of job opportunity; the rentier benefits because he can rent or sell the property he owns for more than he could before. And there is the benefit to those who share in the net income of the company, principally the stockholders receiving dividends.

The government benefits also, taking higher taxes from the corporation directly or from the increase in real income available to consumer, worker, rentier and shareholder, and using such increased revenues for the common welfare. An increase in investment, especially the primary investment in new industries and in new areas, creates the opportunity for a host of subsidiary investments, as in the servicing, transporting, distributing and entertainment fields. These subsidiary investments, in turn, raise the level of social output. Moreover, investment, especially in new areas and new industries, has large benefits which the economist calls "external". These are benefits which are very real but which fall outside the orbit of the enterprise which has made the investment. For example, in opening up a territory for its own exploitation, a company may dredge rivers, clear harbours, clear forests, build roads, create sanitary conditions—but once these things have been done they become part of the public domain to be enjoyed by all.

These are the benefits and the beneficiaries of investment. How is the situation changed if the investment is American rather than Canadian?

Whether the investment is American or Canadian, certainly does not make any difference, so far as the consumers are concerned who take their share in the form of lowered prices or more varied output. The consumers who benefit need not, of course, be Canadians. The consumers of many countries may be beneficiaries, and under certain circumstances the Canadian consumer may benefit little if at all. But this depends not on the source of the investment. It depends on the nature of the market. Thus in farming, where investment is entirely local, benefits of increased productivity have been largely reflected in lower buying prices paid by foreign consumers. Nor does it make any difference to the workers, who take their share in increased wages and salaries and wider work opportunities, whether the original investment is American or Canadian. Nor does it make any difference to the rentier, who is able to command a higher price for his property and a higher rent for his land because it is needed in the operation of new enterprise. Nor does it matter whether the originating investment is American or Canadian insofar as the investment stimulates subsidiary investment, with consequent benefits to Canadians or "external" benefits for the Canadian community.

Who Gets The Dividend?

In sharing the increased value of social output brought by new investment, it does make a difference whether or not the investment is Canadian or foreign in origin, when it comes to profits. Because profits are taken by an American company does not mean necessarily that these profits will be divided only among Americans, or conversely that the

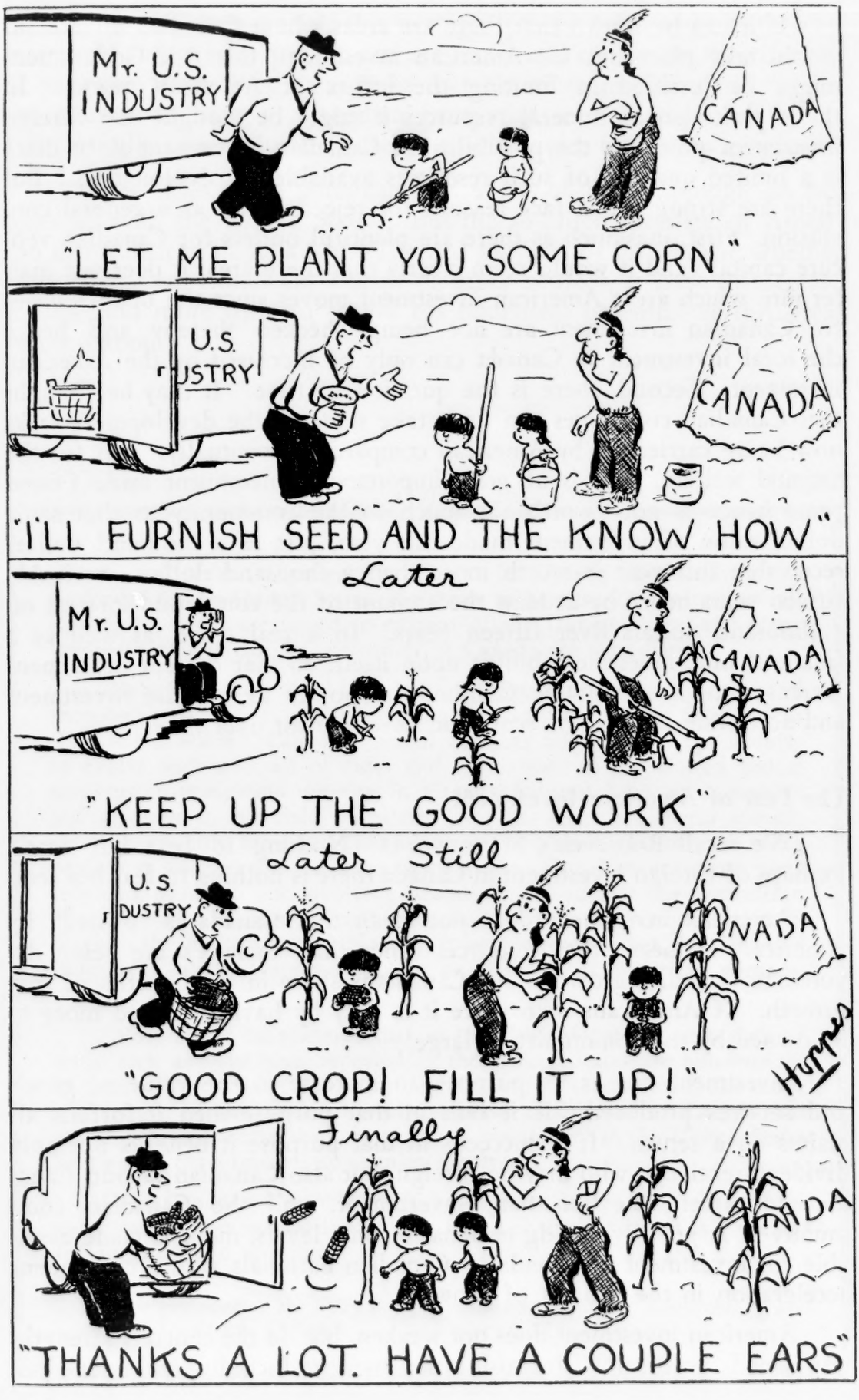
dividends of a Canadian company will be distributed only among Canadians. In either case, shares are likely to be held (and dividends received) by the citizens of many nations. The assumption might be made, however, that Canadian companies have a higher proportion of Canadian shareholders, hence that investment by Canadian companies is to be preferred inasmuch as a higher proportion of dividend-income would thereby accrue to Canadians.

Although dividend-income is a small part of social output, nevertheless the importance of the dividend-receiver's share, as a ratio of the total increase of the value of social output imputable to investment, will vary depending on the nature of the enterprise. Investment, for example, in petroleum extraction in Arabia may not leave many benefits with the invested-in community except insofar as the profit share is taxed; since the consumers of petroleum products would be chiefly foreign there would be few benefits to local consumers; since this industry is characterized by a small, highly specialized labour force that is likely to be imported, there would be few benefits to local labour; and since the technical operations are embodied in a highly specialized, self-contained system there may be few external benefits.

It may be concluded therefore that American investment in Canada should be regarded as desirable on economic grounds as, and for the same reason, that Canadian investment is considered to be desirable. Other things being equal, Canadian investment is to be preferred to American (or other foreign) investment in order that the dividend-income of Canadians might thereby be maximized. This share, however, is only one of many gains which accrue to the Canadian community as a result of such investment.

American Investment "added to" or "instead of" Canadian Investment

Nationalistic symbolism is a consistent source of fallacious thinking everywhere, and it would be unfortunate for the welfare of Canada if, through fear of a bogey, Canada should deprive herself of the great advantages of investment from the outside. According to the analysis put forward, the only possible basis for discouraging or limiting foreign investment in Canada would be the presumption that foreign investment generally and American investment in particular pre-empt the place of Canadian investment, and prevent Canadian investment from taking place. But this would be a very difficult presumption to establish or to accept. On the contrary, the evidence indicates that American investment has greatly extended the opportunities for Canadian investment, and has certainly increased the capacity of Canadians to invest inasmuch as Canadian national income has also risen.


Mr. U.S. INDUSTRY
CANADA
"LET ME PLANT YOU SOME CORN"
U.S. USTRY
CANADA
"I'LL FURNISH SEED AND THE KNOW HOW"
Later
Mr. U.S. INDUSTRY
CANADA
"KEEP UP THE GOOD WORK"
Later Still
U.S. DUSTRY
NADA
"GOOD CROP! FILL IT UP!"
Hupps
Finally
CANADA
"THANKS A LOT. HAVE A COUPLE EARS"

If it can be shown that there are areas where Canadian investment would take place but for American investment, then the Government might be justified in limiting the influx of American money. In the exploitation of mineral resources it might be thought that foreign investment preempts the possibility of Canadian investment since there is a limited quantity of such resources available for exploitation. But there are strong **prima face** reasons for rejecting this as a general conclusion. First, inasmuch as there are plentiful outlets for Canadian venture capital (and it would seem clearly that there are), it does not matter into which areas American investment moves since the opportunities for Canadian investment are not being checked thereby and hence **the total investment in Canada** can only be increased by the American increment. Second, there is the question of time. It may be thought that Canadian companies can undertake some of the development tasks now being carried on by American companies—**eventually.** But for the national welfare, time is of great importance. Investment made fifteen years hence is not "worth" as much to the community as that same dollar value of investment made this year, just as a thousand dollars receivable this year is worth more than a thousand dollars receivable fifteen years hence by at least the amount of the compound interest on a thousand dollars over fifteen years. In a real sense, as well as a financial one, investment builds upon itself, so that current investment increases, in a cumulative fashion, the power to increase investment and accelerate the rate of economic development over time.

The Fear of American Investment

We recall Roosevelt's brave words "Nothing to fear but fear". Perhaps of foreign investment in Canada there is nothing to fear but fear.

American investment does not mean that Canada is "owned" by America. It means that resources other than Canada's are being devoted to Canada's growth. All Canadians share in the benefits of that growth. If Americans own more it is only by having created more to be owned by the community at large.

Investment has as its purpose an increase in the value of goods and services produced. If it fails in that purpose then it forfeits all claims on a return. If it succeeds in that purpose it benefits not only dividend-receivers, who may be foreign, but also Canadian labour, Canadian consumers, the Canadian Government, and the Canadian community at large. By raising national income levels, more is made available for investment in Canada by Canadian nationals with a consequent acceleration in the process of growth.

American investment does not weaken, but on the contrary strengthens Canada politically. In raising per man productivity, and in increas-

ing the industrial potential, the strategic power of Canada is thereby increased, and greater weight accrues to Canada's voice in the councils of nations. With the greater stake that American investors and American companies have in Canadian prosperity, a "Canadian Lobby" is automatically created in Washington to give voice to Canada's interests.

Canada faces many problems and some of these impinge on her relations with the United States. But the so-called problem of American investment is a bogus one. The real problem of investment, whether from Canadian, American, British or other sources, is how to increase it, and thus more fully to realize the boundless potential of this great young nation.

Patent Injustice

". . . American experience is relevant for Canada which industrially is similar to the United States, the more so because 77 per cent of all Canadian patents are issued to citizens of the United States, and many dominant manufacturing companies in Canada are subsidiaries . . .

"By what token should one assume that American companies and patentees will refrain in Canada from practices which they followed in the United States? Canadian patent law has not had the opportunity to evolve such a detail of rules and regulations as the United States; anti-trust investigation activity in Canada has not been as aggressive and effective in the field of patents; nor has Canada hitherto investigated thoroughly the operations of many companies who may be using patents as instruments in restraint of trade. Canadian anti-trust cases recorded, although not involving patents, indicated that the elimination of competition has gone further in Canada than in comparable combines in the United States. Nor can it be overlooked that the Canadian companies involved are subsidiaries or affiliates of American corporations . . .

"How can it be assumed that in the field of patents, restraints of trade such as have been reported in the United States are non-existent in Canada? In the optical goods case, the only Canadian case, the scope and nature of the patent licensing system established in Canada was much more restrictive than the practices maintained in the United States by two of the principal companies involved . . .

"The Canadian Patent Act gives no protection to the public where patentees and licensees willingly join together to use patents as a pretext for monopolistic activities."

—*Evidence presented to the Ilsley Royal Commission on Patents, Copyrights, Trademarks and Industrial Designs.*

Financial Lessons of the Guaranteed Wage In U.S.A.

C. F. Owen

In October 1956 eligible employees begin to receive supplemental unemployment benefits under the first plans established in Canada. This is an appropriate occasion to review the events which lead to the formation of these plans. A surprising continuity can be traced from the first guaranteed wage proposals of the United Steelworkers and the United Automobile Workers in 1944 to the principle of company unemployment benefits established by Ford and General Motors in the U.S.A. This review of the events from 1944 to 1955 provides a better perspective against which to examine the supplemental unemployment benefit plans. The experiences of the past can help to anticipate future events.

THE term, "Guaranteed Wage" is quite inapplicable to most of the proposals known under these titles over the last three years. Furthermore, the plan agreed upon between the Ford Motor Company and the United Automobile Workers, which some experts contend will act as a pattern for other companies, is often referred to as a "Guaranteed Wage" scheme, despite the clear statement of Henry Ford II that, "In some quarters, it has been likened to the union demand for a "Guaranteed Annual Wage"—which it is not".[1]

The various plans are based on fundamental financial propositions which automatically mean that **no actual guarantee** is involved, either of wages or any other benefit payments. The most important change in the new proposals advanced by both the United Steelworkers and the United Automobile Workers, as compared with those made in 1944 and 1945, concerns the method of financing suggested by the unions. First, in this article, the evolution in union thought on this subject will be briefly traced. Then the significance of the changes in the unions' proposals, and of the differences between the respective plans of the United Automobile Workers and the United Steelworkers will be discussed as a preliminary to an examination of the Ford and General Motors Supplemental Unemployment Benefit Plans. Finally, some comments will be made on the general subject of the "Guaranteed Wage".

1. Foreword to Ford Motor Company Publication, "The Ford Supplemental Unemployment Benefit Plan".

Early Union Proposals

The first guaranteed annual wage demand of the United Steelworkers was made to the U.S. steel industry in December, 1943. This demand, together with other proposals made by the union, was referred to the National War Labor Board. The United Steelworkers guaranteed wage plan was for a minimum weekly wage for each week of a two year contract, and the weekly wage guarantee was to be forty times the employee's straight-time average hourly earnings for the year preceding the effective date of the contract.

The companies, opposing the demand, declared that the cost of the wage guarantee would obviously vary on the amount of work available.

"If the 519,000 employed in January, 1944 were all guaranteed 40 hours' pay every week and if the amount of business fell to the levels of the peacetime era of 1938 through 1939, the cost of the man hours not worked would be $238.5 million per year. It would cost nothing, or it would cost as much as a billion dollars a year. It would probably cost more than a 17-cent general wage increase".[2]

The National War Labor Board denied the United Steelworkers' request for a guaranteed annual wage declaring that the demand would subject the industry to such serious financial risks as to be unworkable. However, the Board made an important recommendation that guaranteed wage plans, and the possibility of their future development in U.S. industries should be comprehensively studied. As a result President F. D. Roosevelt directed the Advisory Board of the Office of War Mobilization to undertake the investigation. The Report of the Advisory Board, "Guaranteed Wages", submitted to President Truman in January, 1947, called the Latimer Report after Murray Latimer, the Research Director, contains in four hundred and seventy pages the most comprehensive single analysis of the guaranteed wage principle. It includes a survey of guaranteed wage plans then existing or previously existing in the United States, legislation relating to wage guarantees, and discussions of wage guarantees with regard to economic insecurity, unemployment insurance and the general subject of industrial relations. Yet, undoubtedly, the most important part of the Report is the extensive examination of the cost implications of guaranteeing wages.

Seven years elapsed before further guaranteed wage proposals were made by the United Steelworkers union. A direct relationship exists between these new proposals and the Report of the Advisory Board. The 1952 guaranteed wage plan of the United Steelworkers was pre-

2. Labor Relations Reference Manual, Volume 15, pp. 1600-01, published 1944 by the Bureau of National Affairs Inc.

pared and personally submitted by Mr. Murray Latimer to the U.S. Wage Stabilization Board.

Changes in two important principles were involved in the 1952 plan as compared with the 1945 guaranteed wage demands: first, not all employees would be eligible for benefits, and secondly, that the overall benefit to be paid would be less than the individual's average weekly wage. All employees with three or more years continuous employment would be eligible for benefits; the overall benefit would be 30 times the standard hourly wage rate; and the benefits would be payable for no longer than 52 consecutive weeks in any spell of unemployment. In contrast, the 1945 plan provided all employees with a guarantee for two years of forty times the employee's straight-time average hourly earnings.

Yet, the most significant characteristic of the new United Steelworkers' proposals is in the basic consideration that a maximum cost had to be set for the plan. Commenting on cost considerations Mr. Latimer stated:

"The data (in the 1947 Report of the Advisory Board) covered the 5- year period 1937-41. Taking the twelve plants together, our studies indicated that for the 5-year period the cost of continuing full-time, 40-hour-per-week compensation during periods in which full weeks of work were not available would have been about one-sixth of total payroll, a significant cost item. Consequently, a major part of the Guaranteed Wage Study had to do with the development of effective methods of limiting cost.[3]

"I have no illusions as to the existence of the far wider margins of error necessarily inherent in estimating unemployment benefit costs than in estimates in the other fields of employee benefits. For that reason I have emphasized as a basic essential to successful operation of a plan, a limitation of the liability of the employer to the amounts of contribution estimated in some such fashion as I have done in this statement. And the need for continuous study and periodic but frequent adjustments of estimates will always remain".[4]

The 1953 and 1954 Proposals

The guaranteed wage proposals made by the United Steelworkers in 1953 and 1954 to the Aluminum Company of America and the U.S. Steel Corporation respectively, followed the plan advanced in 1952.

3. "A Guaranteed Wage Plan for the Workers in the Steel Industry (case number D - 18 - C, page 6.

4. Ibid., page 46.

The only differences lay in specific details. The union sought from the Aluminum Company of America a guarantee which would equal 30 times the employee's standard hourly wage rate, whereas the rate of weekly benefits demanded from the U.S. Steel Corporation was 32 times the employee's standard hourly rate. In the 1953 plan three years of service would be required to make an individual eligible for benefits, but in 1954 the length of necessary employment was reduced to two years.

A certain difference existed in the financing of the two schemes. In the former, the Aluminum Company of America would pay 10 cents into the trust fund for each hour worked by an employee; in the latter the United Steel Corporation would pay 4% of its total payroll for employees in the bargaining unit into the trust fund. However, in both plans, as in the 1952 proposals, the limit of the company's liability to the payments made into the fund was clearly indicated. In its plan submitted to the U.S. Steel Corporation the United Steelworkers declared, "The benefits set forth in the plan shall be paid from this trust fund to the extent possible, and the Company shall have no liability to pay for any benefits which cannot be provided from the funds available in the trust fund".[5]

The Proposals of the United Automobile Workers

The 1945 proposals made by the United Automobile Workers to the General Motors Corporation consisted of two parts. In contrast to the United Steelworkers, the United Automobile Workers placed emphasis on a guaranteeing of employment. The Union suggested an organization and scheduling of production to provide each employee with a minimum of 48 hours work. Where this full week of employment could not be realized, there should be a guarantee of 48 hours pay to employees who work less than 48 hours through no fault of their own. The second part of the United Automobile Workers' plan was the suggestion that the company should set aside a postwar security fund equal to the amount set aside as a postwar contingency fund in order to guarantee a minimum of 40 hours weekly pay to employees with seniority and to employees returning from the armed forces. These requests were denied by the War Labor Board.

After the 1945 proposals, which seemed to be largely concerned with the postwar adjustment of the automobile industry, the United Automobile Workers did not make the guaranteed annual wage a specific collective bargaining issue until 1955. In the three years preceding, the Union undertook extensive research and publicity work. The

5. United Steelworkers of America, 1954 Guaranteed Wage Plan Proposal, section 4, "Financing".

actual plan that the Union subsequently submitted to the automobile companies has not been made public. The general intentions of the United Automobile Workers union are, however, indicated in the publication "Preparing a Guaranteed Employment Plan", published by the UAW-CIO Education Department. The main provisions of this plan were similar to the Union's previous proposals in that it was made up of two parts, a guarantee of a full week's pay for every individual called to work for any part of that week, and secondly, an annual wage guarantee for all eligible workers. As a whole, the new proposals were more extensive and presented in much more specific terms than the original. The cost and financing aspects of the UAW plan were presented in very precise detail.

An Evaluation

An evaluation of the guaranteed wage proposals made by the United Steelworkers and the United Automobile Workers requires a comparison to be made at four levels; the extent of the wage guarantees demanded, who would be eligible for the guarantee, the administration, and the financing of the plan. Important differences between the policies of the two unions exist in each of these categories.

—The Guarantee

As previously indicated, the Steelworkers' 1954 proposals would ensure for employees a benefit ranging from 65 per cent to 70 per cent, on the average, of the employee's normal earnings. In contrast, the United Automobile Workers claimed for its members, "guarantee payments for each full week of layoff in amounts sufficient to enable them to maintain the same living standards as when fully employed".[6] While the term "same living standards" is sufficiently general to allow for wide interpretation, it would suggest that benefits should be comparable to the individual's average weekly wage and that he should not experience any substantial loss of income.

—Eligibility

Under the United Steelworkers' plan benefits would be paid to employees with two or more years of service. The United Automobile Workers sought coverage for all workers with seniority status, including those who acquired seniority after the plan became effective.

—Administration

The unions differed radically in their policies towards administration. The United Steelworkers suggested that the Company would ad-

6. "Preparing a Guaranteed Employment Plan", page 6.

minister the plan, subject to the grievance and arbitration machinery of the collective bargaining contract. The Company would supply full details of the operation of the plan to the union. In the United Automobile Workers proposals the wage guarantee would be administered by a Joint Board of Administration composed of union representatives in equal numbers plus an impartial chairman to break deadlocks.

—Financing

The most striking contrast lies in the manner of financing, and the consequent cost liability of the Company. The United Steelworkers declared:

> "The Company shall pay 4% of its total payroll for employees in the bargaining units into a trust fund. The benefits set forth in the plan shall be paid from this trust fund to the extent possible, **and the Company shall have no liability to pay for any benefits which cannot be provided from the funds available in the trust fund".**[7]
>
> **Thus, the liability of the company would be limited to a specific payment which would depend on the size of its total payroll. Furthermore, the size of the trust fund would be taken as given, being determined solely by the amount of payments paid into the fund by the company.**

The United Automobile Workers also referred to the principle of limiting the cost liability of the company:

> "II. Financing
>
> B. Cost of Full-week Layoffs:
>
> Costs of payments for full weeks of layoff will be met by the employer on a pay-as-you-go basis up to a specified maximum percentage of his current payroll.
>
> C. Reserve Trust Fund:
>
> (4) The employer's maximum liability, for current (pay-as-you-go) payments for full-week layoffs plus contributions to the trust fund, will be limited to the percentage of his current payroll specified in II. B above. The cost of current guarantee payments will be the first charge against this percentage, with the trust fund, if contributions are due it, getting the remainder up to the contribution rate or the amount due, whichever is less".

7. United Steelworkers of America, 1954 Guaranteed Wage Plan Proposal, section 4. "Financing".

Yet, whereas in the United Steelworkers plan the amount of the trust fund at any moment would be determined by the company contributions into the fund minus payments out of the fund up to that date, the United Automobile Workers advocated a fund of a specific amount, and special company contributions to realize the fund proposed.

"C. Reserve Trust Fund:

(1) The employer will be required to make contributions to establish and maintain a reserve trust fund to meet costs of full-week layoffs in excess of the percentage of his current payroll specified in II. B above.

(2) The employer will be required to build the reserve trust fund up to and to maintain it at a specified percentage of his "base payroll". (The "base payroll" will be the highest number of manhours worked in the bargaining unit during any of a specified number of calendar years immediately preceding the annual review of the fund multiplied by the current average straight-time hourly wage rate)".[9]

Accordingly, while the United Steelworkers would limit the liability of the company to a specific amount which would be determined by the size of the company's payroll, **the United Automobile Workers would extend that liability to the creation of a specific fund. Depending on the size of the fund, the extra contributions to build up and maintain the fund could represent a considerable extra cost burden on the company involved.**

This action by the unions of setting out clearly to define and limit the financial liability of the company stems from the work of the Latimer Report which indicated the cost burden that could be imposed on the company and the need for limiting this cost. Also, it will be remembered that the original 1945 proposals were rejected by the War Labor Board partly because of the serious financial risks that could be imposed on industry.

Yet, from the point of view of the union, this preparedness (out of necessity) to limit the liability of the company has a serious danger. The exhaustion of the trust fund would mean that members could not receive payments which they may have grown to anticipate. In other words, any form of guarantee of benefits would cease to exist.

Where a company agreed to establish a trust fund from which benefits could be paid, the company would not thereby be guaranteeing payment of any benefits to its employees. It would be undertaking

8. "Preparing a Guaranteed Employment Plan", page 7.

9. Ibid.

OLD 'POP' INDUSTRY'S WELL
LABOR
LABOR
LABOR
GUARANTEED ANNUAL WAGES
DAILY STAR
INDUSTRIAL DROUGHT
OLD 'POP' INDUSTRY
OLD 'POP' INDUSTRY'S WELL
LABOR
LABOR
LABOR
GUARANTEED ANNUAL WAGES
NO RELIEF IN SIGHT
OLD 'POP' INDUSTRY
OLD 'POP' INDUSTRY'S WELL
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OLD 'POP' INDUSTRY

to make payments into the guaranteed wage fund, but whether benefits could be paid to participants, and the duration of those benefits would essentially depend on the size of the fund. Where sufficient time did not elapse to build up the fund or where large payments had been made from the fund, benefits would have to be reduced in keeping with the assets.

Interim Conclusion

The financing of a guaranteed wage scheme resolves itself into two fundamental issues according to the guarantee. If a company undertook to pay stipulated benefits over a specific period of a year or even six months, it would be faced with the questions of how much money would be required to fulfill this guarantee and how, if at all, such an amount of money could be accumulated. The George A. Hormel Company, originator of one of the earliest forms of guaranteed wage stated:

"Certainly our company is wholly unable to redeem the considerable money in such a guarantee unless we can keep our people actually and profitably employed. The entire asset value of our company, cashing everything we own, would only be sufficient to redeem a ten month's guarantee. If we as a company cannot make such a guarantee, neither can our community, for we know that in our town all of the bank assets including county deposits, city deposits, all the money owned by all of us, would only cover the payroll for nine months. So, when using the phrase "guaranteed annual wage", we must ask the question—guaranteed by what? The only guarantee we know of is the ability of management to manage, coupled with willingness of workers to work. If either fails, then the guarantee fails".[10]

The alternative to this type of guarantee, which would impose the maximum liability on the company, is that the liability of the company would be limited to a predetermined cash payment. In this case the company would be guaranteeing to pay a certain amount of money into a fund. **There would, however, be no guarantee of benefits as such.**

These two types of guarantee, with their radically different financial consequences, represent the most important change in the union proposals of 1944 and those of 1954. The first union demands, in effect,

10. "Annual Wage", (The George A. Hormel Company), page 7.
The apparent paradox of this statement is explained by the fact that it is immediately preceded by the declaration that:

"This guarantee of ours is designed not as a protection to the employees through the medium of the guarantee, but rather as a compulsion of management to so conduct itself that the guarantee need never be invoked".

This declaration adds a new dimension to the whole subject of the guaranteed wage. Little or no publicity has been given to this aspect of the statement by the George A. Hormel Company.

were for company contributions to a trust fund from which unemployment benefits would be paid.

"Too many people have been steeped in the over-riding problems of providing **absolute annual guarantees.** The Steelworkers' proposal and those of the other large unions are called guaranteed wages. Therefore people unfortunately form the conclusion that what we are talking about is an **absolute guarantee of the type which was the subject of discussion more than fifteen years ago.** The Steelworkers present proposal involved supplementary unemployment compensation on an annual basis other than a guarantee of full wages".[11]

The Ford and General Motors Plans

In agreements signed in June, 1955, the Ford Motor Company and the General Motors Corporation each undertook to establish what was termed a "supplemental Unemployment Benefit Plan". Both companies pay benefits, which, when added to unemployment insurance, equal 65 per cent of an employee's after-tax wages for four weeks and 60 per cent for 22 weeks. No employee participates until he has at least one year seniority, and the maximum cash benefit is $25 a week. The liability of the Company is limited—Ford Company specifically stated that, "The Company's contribution to these Funds (General Fund and Trust Fund) constitutes its sole liability under the plan. Ford's financial obligation under the Plan is fixed at and limited to the contribution of five cents for each hour for which covered employees receive pay".[12]

General Motors Corporation declared:

"The Company shall not be obligated to provide for any benefit or payment not provided for in the Plan, or to make any contribution to the General Fund not specifically provided for in the Plan, even though the assets in the Fund should be insufficient to pay Benefits to which eligible persons would have been entitled under the Plan were the assets of such fund adequate to pay such benefits; and the Union shall not call upon the Company to make or provide for any such benefit or payment".[13]

Both Ford and General Motors further limited their financial liability by the creation of a system of "Maximum Funding". This creates a limit on the total amount of money to be built up in the Funds. Based

11. Round Table Conference held at the 346th meeting of the National Industrial Conference Board in New York, January 21-22, 1954: Marvin Miller, United Steelworkers.

12. Ford Motor Company publication, "The Ford Motor Supplemental Unemployment Benefit Plan," page 3.

13. Exhibit C, Supplemental Agreement, (Supplemental Unemployment Benefit Plan), page 30, (Article X, Section 1, Liability).

on current employment levels, a new Maximum Funding amount will be computed every month and will vary upward or downward in proportion to increases or decreases in the number of hourly rated employees.

Both companies rejected the idea, advocated by the United Automobile Workers, of company payments into a reserve trust fund of a specific size, which would be in addition to the payments based on a percentage of current payroll. The "Maximum Funding" incorporated in the Ford and General Motors Plans, does not represent an amount which the Companies will have to attain, but is a limit which if achieved would mean that the Companies would make no further payments until the fund was again below the maximum funding position.

"Credit Unit" System

While the Ford and General Motors Supplemental Unemployment Benefit Plans follow the general evolution in the guaranteed wage principle since the time of the Latimer Report, both plans have the same very original feature. One of the most serious criticisms levelled against the guaranteed wage was that it would victimize the more senior workers. If unemployment occurred, less senior employees would be laid off first and receive the wage guarantee. If more senior workers became unemployed at a later date the trust fund would have been so reduced that the senior people would not receive full benefits. To prevent this and ensure adequate protection for employees with longer service, both Ford and General Motors Plans have a system of "credit units". A credit unit has no fixed value in terms of either time or money, but is a medium for translating employee service into benefit eligibility and duration. Beginning in June, 1955, employees with ten or more years seniority receive more credit for each week worked than less senior workers. After June 1, 1957, however, all employees will receive the same credit for each week of work. Thus, the most senior workers build up credit standing at a more rapid rate.

The duration of benefits depends on the position of the Trust Fund and the number of credit units which the individual employee has acquired. When the Trust Fund is reduced beyond a certain point, less senior workers will have to give up more credits than senior employees in order to receive the same amount of benefit.

"When the Trust Fund Position is 85 percent or more, only one Credit Unit will be required in exchange for one week's benefit. When the Trust Fund Position is at lower levels, as it will be in the early stages of the plan, and as may happen thereafter because of heavy lay-off experience, the exchange rate for Credit Units is less favourable. For example, when the Trust Fund is between 13-percent and 21.99-percent, an

employee with less than five years seniority would have to surrender five Credit Units for one benefit.

High-seniority employees have an advantage over their fellow workers with lower seniority in the exchange of Credit Units for benefits from the Funds. If the Trust Fund Position is between 40-percent and 48.99-percent, for instance, a 25-year employee will be able to obtain one benefit for one Credit Unit, while an employee with less than five years' service would need two Credit Units to obtain one benefit".[14]

Conclusions

The persistent use of the terms, "Guaranteed Wages" or "Guaranteed Annual Wages" is undoubtedly responsible for much of the present controversy and confusion. As discussed in this article, the same union has defined the terms in quite contrary ways in separate points of time, and important differences existed between the proposals of the United Steelworkers and the United Automobile Workers. The proposals made by the United Steelworkers and the United Automobile Workers were tantamount to completely different plans and this is especially true of their later plans as compared with their first proposals. The wide variations which "Guaranteed Wages" may take would be further emphasized if a study were also to be made of such company schemes in operation as Hormel, Proctor and Gamble, and Nunn-Bush. Yet, for all of these schemes, the term "Guaranteed Wages" has been widely used. Thus, many statements are made which might be true of some plans, but quite untrue of others. Each proposal or plan in operation must be evaluated on its specific features and kept quite clear and distinct from all other plans. Only in this way can accurate judgments be made, and the varying financial consequences of the separate schemes be known. **The implications of the development of company unemployment benefits must be examined fully, with the complete realization that the various proposals made in the past, and which might occur in the future, can create quite different financial results for the companies concerned.**

A definite evolution of thought on the subject of guaranteed wages can be traced. Ultimate ideas were determined by the realization of the faults and limitations of earlier proposals. Despite this evolution, it would be quite wrong to consider any plans with the same features as the Ford and General Motors Plans as guaranteed wage schemes. As discussed, the companies certainly have not guaranteed wages and they do not make any guarantee of benefits at all. In such cases, the term "Guaranteed Wage" becomes a complete misnomer.

What of the future? If the trend throughout the economy is inflationary, it is highly probable that developments in existing supplemental

14. Ford Motor Company publication, "The Ford Motor Supplemental Unemployment Benefit Plan," page 6.

unemployment benefit plans will be restricted to union demands for increases in company contributions to the trust fund in proportion to any wage increases obtained. Main emphasis would probably be placed on seeking actual wage increases. The existence of fairly high levels of employment would have another significant aspect. If trust funds were built up to near maximum funding positions and unemployment were confined to minor seasonal unemployment and lay-offs from production changes, higher supplemental benefits could be paid without any increase in the company's contribution. However, this possibility is complicated by the fact that with any significant increase in unemployment larger benefits would lead to the quicker depletion of the fund.

Economic conditions, of course, will be a prime factor in determining the evolution of the guaranteed wage principle. If the economy has entered into a phase where extreme fluctuations of business activity are unlikely, the risk of the sudden and rapid using up of the trust fund's assets would be greatly diminished. Here again there is an important consideration. The economy as a whole may sustain a high level of employment and still considerable unemployment could occur between industries and especially within individual companies of a particular industry. This aspect creates one of the most serious limitations to the guaranteed wage principle. In sharp contrast to the unemployment insurance system, where risks are spread between companies and industries, the guaranteed wage imposes liability on the individual company.

Fluctuating employment levels would probably create demands for increased company contributions to the trust fund. The fact that current supplemental unemployment benefit plans do not involve any guarantee of benefits means that any large volume of payments out of the fund would diminish the chances of eligible employees actually receiving benefits. Yet, any attempts to guarantee benefits will directly encounter the basic problem which has faced companies since the first guaranteed wage proposals in 1944—the financial liability of the companies concerned. Liability aspects of the guaranteed wage proposals determined the form of the Ford and General Motors Plans and will undoubtedly dominate future developments in the field.

Women in France

Women have made notable strides in the liberal professions: 11% of the lawyers of France, 7% of her doctors, 23% of her dentists, and 28% of her pharmacists are women. More than 100 women judges in the courts of first instance, a woman judge in the "Cour de Cassation," France's highest Court of Appeal, 19 women Deputies in the National Assembly, and 9 women Senators in the Council of the Republic bear eloquent witness to the words of the Preamble of the French Constitution: "Women shall have equal rights with men in all domains."

—French Government Information Service.

Are Canadian Farmers Badly Off?

Howard L. Patterson

"AGRICULTURE in Ontario", recently said its Premier Mr. Frost, "is faced with many problems and even crises brought about by the expanding economy of the province. Farm prices in many ways have not kept with the rest of the economy". This statement sums up very well what many other leaders in Canada have been saying.

The fact that problems exist, of course, does not mean that they are insurmountable—given time and thought. However, the ability to surmount them is not the same in every case. There is a parallel here with men who have fallen in water over their heads. From such an experience, some would have only a pleasant swim and emerge refreshed and strengthened. Others would drown, unless aid reached them speedily. In any case, they would have to find their way out of the pool somehow, if they were to survive.

"Net Farm Income" Best Guide

To get the parallel of the various farm operators, we shall need to study the indicators of their well-being, one at a time, in order to see their different positions clearly.

One of the common indicators of farm welfare quoted, is the revenue received by agriculture in dollars. This may be stated as "aggregate production value", "gross farm income", "farm cash income" or "farm net income". The difference between these figures is largely one of the degree to which they exaggerate the actual income position. The "aggregate production value" simply adds the value of all farm products. Thus it includes the value of all feed as well as the full value of all livestock produced from that feed. The only reason for using it is that representatives of other industries sometimes quote similar misleading figures to stress the importance of their occupation.

The "gross farm income" also contains many duplications and is not a good indicator of the farmers' position. The "farm cash income" is stripped of most of the duplicate values. However, as an indicator of farmers' position, it leaves much to be desired. It indicates cash income —but not how much it took to get that cash, nor, how much the cash will buy. Neither will it give any basis of comparison with other occupations. There is a further difficulty that the current trend of chang-

ing from some self-sufficiency on farms to strictly cash operations, may show considerably more cash receipts without any corresponding increase in living amenities.

These limitations also apply to the "farm net income" except that it does discount many of the costs of getting the cash. There is, however, some point in examining it, as one indication of average trends.

The "net farm income" of Canada has slightly more than doubled since 1926. (Table 1). However, that has not been a straight forward trend. It fell off to very little during the thirties, came back fast during and after the war till 1951 and has been dropping rather fast since that time. The trend in Ontario has followed a similar pattern but has not been quite so changeable as that of the Prairies. The drop in farm income since 1951, at a time when the rest of the economy was going up in wages and employment, is the part which causes farm leaders to shake their heads and wonder, "where are we going in agriculture".

Not only has farm income been falling but the composite index of prices of commodities and services used by farmers has risen (1935-9—100) from 230 in 1951 to 236 in January 1956, and the consumer price index has risen (1949—100) from 113.7 to 116.4. In other words, farm income has been falling at the same time that each dollar would buy less.

Farmers Often Living Off Capital

Why stress just what has happened since 1951? For some farmers, this is a good question. If they had started farming well before the last World War, they had all the period of rising prices and net income from 1936 to 1951 to pay off debts and get in an assured position to stand a recession. A good-sized farm plus stock and equipment represents enough investment to carry the cash costs of a family living on interest on investment alone, whether anything was earned for the time spent at work or not. Agriculture is probably the only occupation where a family may be living off investment income without realizing that is what they are doing. Those farm operators who have been able to get themselves into this fortunate position will recognize present conditions as a situation in which their spending is curtailed, but for them it is not an emergency.

For those young operators who had to start since the war, heavily in debt, the situation is quite different. This situation is more common than realized by non-farm people. The cause, of course, is our method of holding title in fee simple. Anybody can own land by simple purchase agreement without any conditions attached by regulations.

Table I—Labour Force[1] and Net Farm Income[2] in Canada and Ontario

Year	CANADA			ONTARIO
	Net Farm Income	Total Labour Force	Average Net Income Per Worker	Net Farm Income
	$000's	No.	$	$000's
1926	630,031			164,003
1927	643,732			171,181
1928	663,744			174,829
1929	432,997			165,479
1930	339,620			138,529
1931	138,279	1,203	115	90,135
1932	133,535	1,223	109	58,482
1933	117,311	1,243	94	56,781
1934	210,500	1,263	167	87,404
1935	242,083	1,284	189	93,743
1936	240,671	1,304	185	92,013
1937	317,243	1,324	240	123,900
1938	371,362	1,344	276	121,455
1939	454,915	1,364	334	129,799
1940	485,694	1,329	365	132,194
1941	516,501	1,210	427	170,283
1942	1,087,668	1,127	965	263,406
1943	879,133	1,107	794	246,039
1944	1,240,214	1,126	1,101	288,957
1945	971,582	1,134	857	309,795
1946	1,138,637	1,186	960	338,621
1947	1,206,209	1,122	1,075	343,237
1948	1,681,563	1,096	1,534	438,169
1949	1,648,046	1,079	1,527	454,976
1950	1,491,876	1,018	1,465	468,663
1951	2,154,500	940	2,292	558,200
1952	1,923,500	891	2,159	447,600
1953	1,699,000	858	1,980	435,700
1954	1,189,900	873	1,363	396,600
1955	1,454,300	818	1,778	428,400

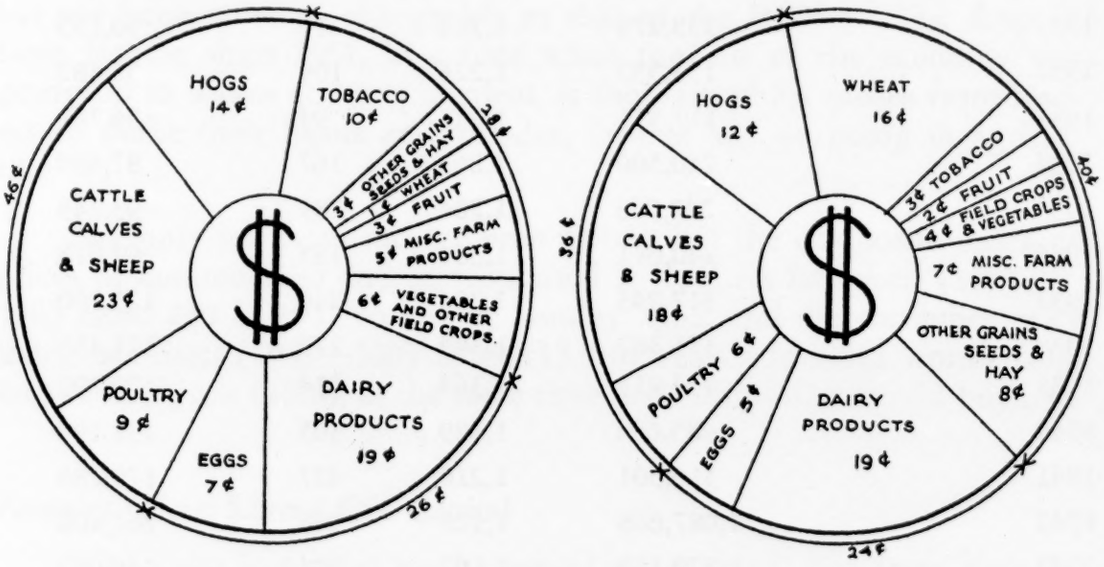
1. Taken from the Supplemental Statistical Review 1955.

2. Figures from 1926-1950 were taken from the Handbook of Agricultural Statistics Part II. Those from 1951-55 are revised figures from D.B.S. Memorandum 1951-55.

In a livestock economy such as Ontario's (Chart 1) the tendency is to own farms outright since the success or failure of a farm unit may depend far more on the skill of the farmer than it does on the inherent productivity of the soil. A poultry or hog feeding unit may be quite independent of soil productivity. This leaves the would-be-landlord very much dependent on the operator's ability and willingness to meet terms, and resulted in 89.2 per cent of all farm land being owner-operated in 1951 according to the Census.

SOURCE OF FARMER'S CASH DOLLAR — ONTARIO 1955

CANADA 1955



Prepared by Farm Economics Branch, Dept. of Agriculture, Toronto

Owner-operated farm businesses can only last for the active lifetime of one operator. From a study by the Farm Economics Branch of the Ontario Department of Agriculture[3], it was learned that the period of one owner lasts an average of 21 years. This means that about 5 per cent of our farms change owners every year. During the war farms were not changing owners so fast, but since the war, farms have changed ownership much faster than normally. Each change of owner means refinancing the farm. This creates much of our more acute farm problems.

These problems arise from the extent to which each new operator has to go into debt to get started. The usual method is to make the minimum down payments necessary to get started and assume debt on the balance. In the study of eight sample areas of Ontario, it was found

[3]"Farm Tenure in Ontario", cir. 214. Ont. Dept. of Agr.

that 68 per cent of all farm title transfers were accompanied by a mortgage. Seventy-four per cent of all owners had a mortgage at sometime before they finished operation. There would be many other debts besides, such as bank loans and personal loans from various sources as well as deferred payments on supplies purchased.

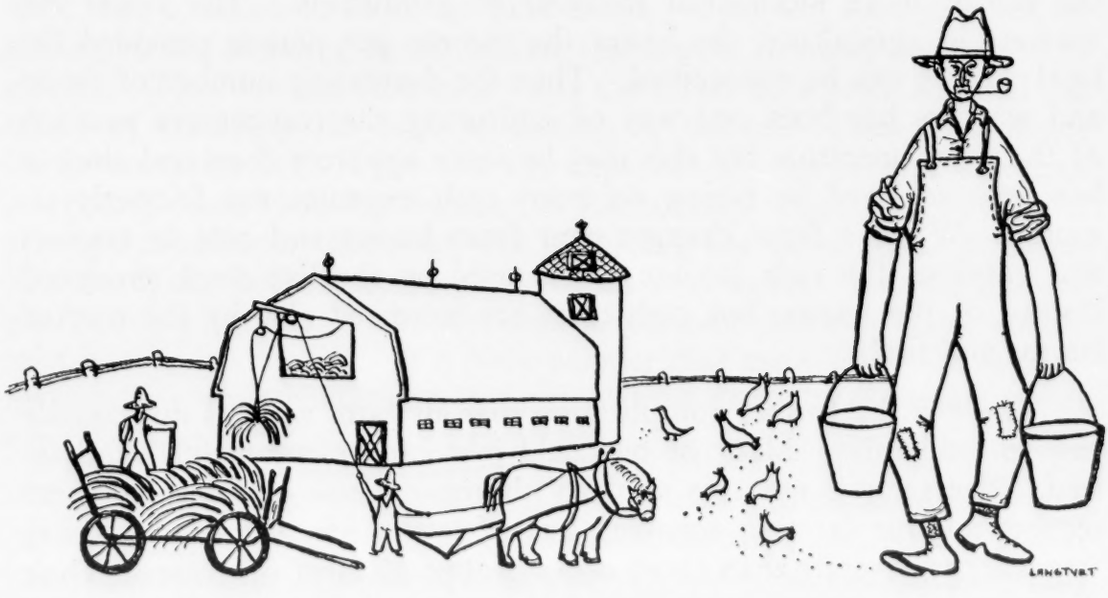
This tendency to start operations with a load of debt, complicates the picture of farm prosperity. The majority of farm operators are usually short of cash. This may be due to a low income or it may be due to payments on debt, a form of savings.

Other farmers who feel that they are doing well, may be earning a good current income or they may be living off past accumulations of capital without realizing it.

No two farms are exactly alike and no two operators have exactly equal strength and health or managerial ability. Furthermore, markets available and time to get farms stocked and organized vary greatly. Therefore current annual incomes for the operators' work and management vary anywhere from less than zero to about $10,000 per year. With all the variations between debt-paying and debt-free farms, it is impossible to lay down any arbitrary statement about how well off farmers are—without having more exceptions than agreements.

Declining Farms, Farmers and Output

The real question which most farmers are asking themselves is "am I doing as well on this farm as I would be on another farm, or in an entirely different occupation?" For many the answer seems to have been "no". The labour force survey of Canada indicates that workers



in agriculture have dropped from 1,186,000 in 1946 to 818,000 in 1955 or about 31 per cent (Table 1). The number of farm workers in Ontario has dropped at an average rate of about 1000 per month since 1946. This has varied with the level of employment in industry. In 1954 when employment eased in industry, the drain of workers from farms was almost halted. In 1955 with stepped-up activity in industry, workers were leaving agriculture in Ontario at around 2000 per month for much of the year.

This movement of workers away from agriculture has been met in many ways. The two most important are (1) mechanizing the farm operations and (2) abandoning farm land. Mechanizing has been the main effort. The number of tractors on Ontario farms climbed from about 35,000 in 1941 to over 105,000 in 1951. They have been selling at a high rate ever since. The 1956 census may indicate that there are now more tractors than there are real farms in Ontario. Tractor-drawn and specialized equipment have increased even more than the tractors. The farm land has been swallowed in expansion of cities in Ontario but the greatest disappearance of farm land has occurred in marginal soils, remote from all cities. There was a net loss of about seven per cent of the agricultural land in Ontario from 1941 to 1951 and barely one per cent could be accounted for by city expansion. The heaviest fall-out occurred in the counties on the Canadian Shield.

Mechanization Requires Size Adjustments

The smaller number of farms and workers is another adjustment which helps to meet the situation created by falling farm income. The smaller the number of farms there are, the larger will be the income per farm since the physical volume of production has been maintained with the aid of more mechanical methods of production. The fewer the workers in agriculture, the better the income per person provided the total income can be maintained. Thus the decreasing number of farms and workers has been one way of improving the competitive position of the farm operators but this may be more apparent than real since it has been achieved by taking on many cash expenses not formerly required. When a farm changes over from horses and oats to tractors and gasoline, the cash income is increased by the live stock produced instead of the horses, but cash costs are increased also by the cost of tractor and fuel.

There is the further complication that all farm work is not equally easy to mechanize. Many of our field jobs can be completely mechanized. The same is not true of dairy chores, or fruit packing and these sections of our farming economy have felt the pressure of our rising wages more severely than many other groups of farm operators. Their

need has been so great that it has led us into two-price systems for domestic and export cheese and protective tariffs on competing fruits entering Canada.

Adjustment Requires Time and Financial Help

Some point out that the solution of many farm problems lies in adjusting the methods and types of production to those which pay best so that unprofitable lines can be dropped. Over a long period of time this may be true, but, the basic problem is the slowness with which we can adjust biologic processes of production.

Plans for fruit or livestock production may have to be made a long time in advance. All livestock production requires buildings of some kind. Buildings on livestock farms usually represent over half of the value of the farm and are seldom built more than once in fifty years. Consequently, it is not easy to scrap or change a process of production without expensive reconditioning of buildings. Because the cost is high, the operators like to think about it for some time and try to be sure the needed change is a permanent one before it is made. Similarly, orchards have to be planted and tended for several years before they produce. The less profitable present production is, the more difficult it is to finance the change.

We have not found any way yet to produce a mature cow in less than four years. Changing the type of cattle kept in a whole community takes much longer than that.

Because of the long time involved between planning and realization of a change, many price incentives work in reverse at the time of change. For example, the first reaction to rising beef prices in 1947-1951 was a desire to build up beef herds. This was accomplished by adding to the breeding herds, heifers that would formerly have gone to market. Thus for the first four years the effect of a price rise had the effect of curtailing the number coming to market. Then with larger herds the price fell. Now we are experiencing the reverse effect of marketing more than the number in the country would warrant under average conditions. Soon we will be hitting the down grade on numbers on farms and the cycle will start all over again. Because of such conflicting price trends, the direction adjustment that our farms should take is not always clear. It is little wonder that many take jobs in nearby factories while continuing to farm, at least until the economic trends are clearer to them.

Sometimes their problems arise from frantic efforts to adjust to the new situations. Farm costs have not all increased equally. Farm labour has increased over four times since pre-war while gas and oil have only

increased about 65 per cent and farm machinery prices have about doubled. This has led to strong efforts to replace labour with machines or electricity. However, many of the machines are big enough to handle much larger farms than the owner has. Then he is faced with the question of whether to enlarge his farm, do custom work or try to get along without the machine. All decisions will involve some problems and unless carefully made could lead to financial embarrassment.

Problem of Working 7-Day Week

Livestock, particularly dairying, is a seven day week job. When the farm needed two workers or more, there was a chance to take turns on chores. When the farm is mechanized so that one man can handle it all, then there is no relief on chores. This can be particularly serious if sickness occurrs.

One of the fundamental problems of agriculture, particularly in Eastern Canada, is that the farms tend to be smaller than is best for modern equipment. In cash and crop country this can be adjusted by purchasing or renting more land. In livestock farms, however, the problem is that land area and buildings are probably adjusted to each other now, but any shifts in one will involve a considerable adjustment of the other. Labour costs are high and a farm owner usually cannot afford to operate two or more sets of buildings. To consolidate into one set involves considerable expense and loss of income during the change-over period. Considerations of this type have delayed much of the adjustment which is more obviously desirable. The adjustment needed is coming slowly and steadily, as is indicated by increasing size of farms in Ontario. The average size of farms in Ontario in 1941 was 125.6 acres. In 1951 this size had risen to 139.2 acres. A further analysis of farm size in Ontario indicates that the main increase in numbers came in farms of more than 100 acres. Farms of fifty acres or less (part-time farms and rural dwellings) maintained their number pretty well but the decrease came mainly in 100 acre farms. The 1956 census will probably indicate that this trend has been speeded up. All this indicates that farms have been going through a period of adjustment with the financial and mental hazards involved. Some have come through with flying colours. Some farm units did not require too much adjustment. Many others simply have not been able to adjust and are taking the lower relative income which is almost certain income, while others have taken employment off the farm to bolster their income in that way. As long as employment in industry is high, workers in agriculture will not suffer too seriously. They will always be able to seek work in industry and thus become as well off as their town cousins. Whether we want the adjustment to come that way is something else.

Quality control of food products does not come naturally. It takes continuous work to get good quality. This is more important in some products than others. For this reason some processing firms do not like to deal with farm operators who also work in industry because they feel the product will not get the continuous attention necessary to put out a high quality food product.

Canada Relying on Agricultural Imports

Another consideration is becoming important. We are accustomed to food surpluses in Canada. We have become accustomed to the thought that we can always count on having all we want of any product. In recent years our surplus of agricultural products has been steadily dwindling. In 1955 we imported more beef than we exported. Our surplus of dairy products in Canada was down to 3.5 per cent in 1955. Domestic consumption is increasing at almost the same rate as our population, namely 2.5 per cent per year. We have only one really big agricultural surplus left and that is, wheat. Most of our wheat is produced on the dry plains of Western Canada which do not produce other farm products nearly as well as they produce wheat. There is still considerable increased production physically possible in Canada. However, it will take increased economic inducement to get the extra food we need to meet the needs of our growing population.

Taxpayers or Consumers Face Sharply Higher Bills

The Dominion Bureau of Statistics publishes an index of the Physical Volume of Production. This index of volume of farm production is down for Canada, since farm prices began falling in 1951-52. In Ontario, volume is holding steady. More intensive production in the enterprises, like wholemilk and cash crops to feed our growing cities, is offsetting the abandonment of land in the areas remote from market. This phase of the farm adjustment will merit more serious attention in the near future as our surpluses of production continue to vanish. While some surpluses are available, land can be switched from one use to another and take care of potential shortages, with a minimum of price inducements. When the situation requires a general increase of all products, the economic inducements will have to be much greater. Then the price inducements have to be large enough to change the economic point of diminishing returns for applications of fertilizers and labour or machinery, or, large enough to encourage the clearing and cultivation of more remote or less productive lands. The Province of Quebec is reported to have a special Department of Colonization with a budget of over one and one-half million dollars for the encouragement of new settlement—mainly in the Northern Clay Belt of Quebec. It is no pur-

pose of this article to discuss the merits of that plan but it does indicate the extent of economic inducement necessary to call forth much extra production from that source. If the adjustment out of agriculture goes too far then it will take that much more price inducement to bring it back. Farms that have been neglected until covered with trash trees, require a very costly clearing job to get back into production. We might consider as a minimum effort the transition of uncultivated farm land into beef pasture to hold it for production and keep it available for more intensive cultivation later. Methods of doing this economically would warrant extensive research and a full scale article on techniques. It cannot be covered adequately here.

In any case the position of the farm operators is likely to improve. This will be partly at the expense of our consumers and partly through a continuation of the adjustment processes now under way. If the present downward adjustment of manpower and acres on farms goes too far, before relief arrives, the ultimate cost to the consumer will be that much higher. Because of the manner in which biologic production is built up, cycles in agriculture usually go too far and too late. The best argument in favour of farm price supports is that if they are intelligently applied they could help to check the more violent swings of our production cycles. Perhaps we have advanced far enough in our public thinking on farm problems to where stability could be achieved without all the trouble engendered by high fixed supports.

To summarize the farmers' position, we would have to consider again the various positions in which they find themselves. Some will float to safety on the buoyancy engendered by sound personal financing over a considerable period of time. Some have adjusted their production to the most profitable[4] enterprises, practices and markets and are swimming to safety. Many are still floundering hoping to find a way out of their difficulties and may ultimately do so in good form. Some will get to safety but will do it by grasping at anything that helps to keep them afloat, such as jobs at nearby factories. Some unfortunately will have to be helped out to survive. I suggest that it may be to the ultimate advantage of the consumer to see that the most deserving, at least, get some help.

4. See submission of Ontario to Royal Commission on Canada's Economic Prospects p. 19.

Can Canada Avoid Inflation?

George W. Wilson

The possibility of inflation is far more likely than that of deflation or unemployment. The high level of both investment and consumption, bolstered by abundant consumer credit and past savings as well as skillful business advertising, is putting severe pressure on prices in an economy where unemployment is already at one of the lowest levels in history (i.e. under 2%). Moreover, from other countries one can anticipate little decline in net foreign investment despite higher Canadian prices inasmuch as the United States, Britain and many other countries are also inflationary. Thus, both from within and without, Canada is threatened by inflation. Here Professor Wilson discusses the ability of Canadian fiscal and monetary policies to cope with the situation.

A FREE enterprise economy hopes to counteract swings of the business cycle by indirect policies undertaken both by government and banks. Yet these indirect manipulative tools of a market economy, (monetary, fiscal and debt management policies) have substantial limitations when required to exert *de*flationary pressures designed to offset incipient or actual inflationary tendencies, under present day conditions and institutions in Canada. On the other hand, deflation or serious unemployment is fairly easily dealt with under contemporary conditions. But the immediate problem is inflation.

Generally, during an inflationary era, the preferred policies are qualitative and indirect rather than quantitative and direct—policies of *general* restraint upon *total* spending rather than direct price and selective credit controls on specific items. The former are deemed to represent a minimal, though essential, "interference" with free market forces while the latter are construed as serious encroachments upon the market system to be adopted only as a last resort.

Lack of Political Courage

There are, however, several crucial shortcomings to fiscal, monetary and debt management policies at the present time. Fiscal policy would call for budgetary surplus. But under the present budgetary situation, it is both politically inexpedient (especially in the light of a possible

general election in the near future) and, perhaps, economically unwise to raise tax *rates;* economically unwise if higher taxes so reduce incentives and productivity and encourage living on capital as actually to encourage inflation. The major problem, however, seems to be political. That is, the alleged difficulty of selling a higher tax rate to the Canadian public under present circumstances. It is true that total tax receipts may rise, as they have been, but this would be a *result of* inflationary elements rather than a *restraint upon* them. What is needed is a higher rate of taxation to prevent disposable income and hence consumption from rising. Again, however, the impact upon incentives cannot be ignored. Thus, attempts to secure a deliberate anti-inflationary budgetary surplus through a higher tax structure would seem neither politically feasible nor, necessarily, economically desirable.

The other way to obtain a surplus is, of course, by reducing governmental expenditures. (I refer only to the federal government throughout on the fairly realistic assumption that provincial governments will at best be neutral—i.e. will balance their budgets.) The question arises, what scope exists for reducing current federal government expenditures for strictly anti-inflationary purposes? A glance at the categories of such expenditures reveals that approximately 90% of them are conceived as fixed, contractual, and hence inflexible, obligations, (interest on the national debt, veterans benefits, pensions, etc.) or are expenditures such as military, in considering which economics are regarded as irrelevant—an unfortunate hangover from the war years. Given these prejudices, there exists a very limited scope for reducing government spending from the present levels, and, in consequence little likelihood that a surplus adequate to counteract strong inflationary pressures will be obtained.

A Debtor's Prison

Turning to monetary policy, there are equally problems requiring courage and still more courage. The high national debt is clearly an obstacle. A vigorous open market sales policy not only raises interest rates but also incurs substantial capital losses through price falls of government securities. With a smaller national debt the impact of such capital losses would be relatively minor but the current magnitude of the debt renders this a major consideration tending to blunt the vigour with which open market sales can be pushed.

Other weapons of monetary restraint such as raising the bank rate and moral suasion, both of which have recently been used, as well as a higher reserve ratio, which has not yet been attempted, *may* discourage private investment expenditures and lead to a deferment of consumer durable purchases by reducing the availability of credit and raising the

interest rate structure. Against such a supposition, however, both facts and experience expostulate. Consumer expenditures have proved quite insensitive to interest rate increases, as the willingness to borrow at high rates from consumer finance companies indicates, and whether investment expenditures are sensitive to interest rate changes may well be doubted so long as businesses remain fairly optimistic. Furthermore, with both business and consumer holding substantial savings, as well as abundant non-bank sources of credit, the limitations upon the availability of bank credit may hardly suffice to curb private spending. Furthermore, the rise of interest rates in Canada actually increases the already substantial inflow of foreign capital and further impedes attempts to restrict domestic credit. Required is a policy designed to choke off domestic credit without raising domestic interest rates. This might be accomplished if the chartered banks simply refused to lend at going rates instead of raising rates to discourage borrowing. Whether "moral suasion" by the Bank of Canada could accomplish this is unknown. In any event it would probaly not suffice since rates on non-bank lending would rise as borrowers shifted their demands to non-bank sources and thus Canadian interest rates would rise generally and attract foreign capital.

Banks' Subservience to Politics

Monetary policy is likewise subject to political pressure when it attempts to curb inflation. Since North American economies have never suffered from the ravages of runaway inflation there is a general feeling that it is of little consequence compared with serious deflation which has been painfully experienced. Furthermore, attempts to restrict credit when economic activity is brisk is apt to lead to the feeling that the Bank of Canada is crying "Wolf!" and thus arouse political and other pressures to induce the Bank to ease up on monetary restraint. At the very least, the Bank's policy is unlikely to receive widespread acclaim particularly from unsatisfied borrowers. This reaction to monetary restraint under conditions of prosperity is precisely what is presently happening in the United States and there are rumblings of a like nature here also as was indicated during the final week of the last Parliamentary session.

Thus, current political, economic and psychological conditions militate against a vigorous restrictive monetary policy.

Short Term Higher Costs Initiate Long Term Debt Management

An aggressive policy of debt management can also be used to counteract inflation but its impact is much less certain and less powerful. In present conditions we should certainly refund maturing debt in longer term securities but this would be impracticable except at higher interest rates which tend to enhance the rigidity of government expenditures. Mr. Harris' new savings bonds with rising rates the longer they are held will undoubtedly reduce the incentive to liquidate but whether households would reduce consumption expenditures to buy them is highly questionable.

Conclusion

It is thus apparent that our indirect weapons to fight inflation are all impeded by contemporary conditions. Nor do I believe that exhorting business, labour and the public to exercise restraint in their price, wage and expenditure plans is of much avail: it has not worked in Britain and I see no reason for putting much faith in this approach in Canada. If inflationary elements become severe we shall have to have recourse to more direct interference in the economic system through price and selective credit controls. All depends on the severity of potential inflation. Perhaps the Bank of Canada and the Department of Finance could ride out mild inflation and perhaps even exert a gentle restraining influence. If more than this is required, the situation would be dangerous. One area of qualitative optimism may be that part of the past investment boom will have reached fruition and will shortly begin pouring forth goods. Barring the possibility of excess capacity in this sense, however, all the symptoms of incipient inflation are here. Let us hope they are mild else the economy may be in a very precarious position.

Corporations must be Citizens too

"In ancient Greece the real body of the state was made up of the free men, the citizens. Women did not come into the political picture —at least so the Greeks pretended. It was the expected duty of every free man to play his part in the civic duties and responsibilities and interests; they had a name—as they had other things—for those who did not; we have shortened the word in English to 'idiot'. Really, we are not so far from the mark; for a man who will not take the trouble, or has not the sense, to bear his share and play his part in the conduct of affairs of his own state, in the welfare and prosperity of the community in which he lives and on which his own welfare and prosperity depend, may fairly be described as devoid of even intelligent self-interest, to the point of lunacy . . .

"Public service by the individual—personal activity *pro bono publico,* in every sense and in every direction—has been and still is the basis of our social progress. Private endeavour has always been far ahead of lagging governments. Consider the health social services if you will, or consider education. Consider the patronage of art, the exploration of the physical world or the world of science . . .

"That is still true in spite of the revolutions and changes that have taken place in our time, and are still taking place. But there is one point that we have to recognize in these revolutions and changes, and that is that the part of the individual is changing too. No longer is the individual—except in a few remarkable cases—able to have the impact he once had, or, still less, to carry the burden he once carried. This is largely just a matter of money, but not wholly so. The world now is so highly complicated, the problems have become so large, the machinery of action so difficult that these are not for the individual to handle, but rather for corporate bodies . . .

"In Britain, in 1954, companies' donations averaged over £9,000 and an attempt was made to measure the individual donations against the capital employed so as to give what the investigators called a 'generosity standard', by which incidentally, some of the rather smaller firms showed up notably well . . .

"In 1953 the corporate charity or philanthropy of industry (including education but going far outside it) in the U.S.A. was of the order of $300m. Since then it has increased considerably. Just one company—Du Pont— appropriates about $¾ million every year for educational work alone, either as bursaries and fellowships or to assist colleges."

—Sir Hugh Beaver, British Management Review, July 1956.

Should Consumer Credit Be Controlled?

J. P. Cairns

ONE of the most interesting developments in the Canadian economy in recent years has been the remarkable rise in consumer credit. There are many reasons: (1) In the booming post-war Canadian economy, future employment and income prospects have commonly appeared sufficiently favourable to encourage individuals to incur debt; (2) Many new products have been introduced, all highly desirable in the minds of most Canadians, and often too expensive to be bought from current income; (3) The upward movement in incomes, with more and more families rising into the middle income class, where the main concentration of consumer credit occurs, has raised the average income of Canadian taxpayers from $2,044 in 1946, to $3,383 in 1953. In 1946 the largest income group fell in the $1,300 to $1,700 range, and in the $2,800 to $3,200 range in 1953; (4) There has been an intensification, or, at the very least, a continuation, of the social pressures towards demonstrating a standard of living rather higher than the use of current income would permit; (5) Finally there has grown an acceptance of consumer credit as a normal, rather than an emergency, source of finance, together with an increasing willingness, on the part of merchants, to sell on credit.

Record Growth In 1955

Consumer credit outstanding in Canada at the end of 1955 has been estimated at $2,193 millions. Every year since the end of the war, with the single exception of 1951 when a small decline was recorded, the amount of consumer credit outstanding has grown, but this upward trend skyrocketed in 1955. As, at the end of 1954 there had been $1,846 million outstanding, new debt incurred in 1955 exceeded debt repayment by some $347 millions. That this expansion in debt provided the Canadian economy with a vigorous, possibly inflationary boost is evident from the substantial increase in sales of those goods that are most heavily dependent on consumer borrowing (e.g. sales of new passenger automobiles up 25%, washing machines up 25%, refrigerators up 14%, and television sets up 22%). The sale of durable goods in Canada, which had declined in 1954 by 6.2% from the 1953 total, registered an advance of 11.4% in 1955.

Table I—Consumer Credit Outstanding In Canada

(Millions of dollars)

Year	*Consumer Credit Outstanding (End of Year)*	*Increase Year to Year*	*Year to Year Percentage Increase*
1951	973	—	—
1952	1,385	412	42%
1953	1,712	327	24
1954	1,846	134	8
1955	2,193	347	19

Source: Bank of Canada Statistical Summary—April 1956.

While the amount of consumer credit outstanding has been steadily rising, so has the level of personal disposable income (income after payment of personal direct taxes). Between 1951 and 1955, for example, disposable income increased 25% from $14,663 millions to $18,285 millions. Yet at the end of 1955 consumer credit outstanding was equal to 11.9% of disposable income, a record figure. It is, of course, difficult to say at what point the outstanding credit—disposable income ratio becomes excessive. The fact remains, however, that the ratios recently reached are well above any previously recorded. Certainly, were a decline in income to develop, the burden of debt payment would become a serious problem.

Table 2—Consumer Credit Outstanding and Disposable Income in Canada

(Millions of dollars)

Year	*(1) Disposable Income*	*(2) Consumer Credit Outstanding*	*Column (2) as Percentage of Column (1)*
1951	14,663	973	6.6%
1952	15,809	1,385	8.8
1953	16,725	1,712	10.2
1954	16,747	1,846	11.0
1955	18,285	2,193	11.9

The Various Types of Consumer Credit

Canadian statistics on consumer credit distinguish between charge accounts, instalment credit, and cash personal loans. Of $2,193 millions of consumer credit outstanding at the end of 1955, $376 million, or 17% was in the form of charge accounts. A further $830 million, or 38%,

was provided by cash personal loans. The main component of outstanding credit was instalment credit, equalling $987 million, or 45% of the total outstanding. Finance companies supplied $610 million of instalment credit with retail dealers furnishing the remaining $377 million.

From 1951 to 1955 the main source of growth of consumer credit has been instalment credit, up from only $309 million at the end of 1951 to $987 million by December, 1955. Although instalment credit from retail dealers grew substantially, it was instalment credit from finance companies that expanded most. Charge accounts have not increased to any great extent in recent years. Cash personal loans have, however, grown considerably, from $381 million in 1951 to $830 million in December, 1955. The category "cash personal loans" includes personal loans by chartered banks, small loan companies, licensed money lenders, and credit unions.

Table 3—Types of Consumer Credit Outstanding in Canada, 1951-1955

(Millions of dollars)

		Instalment Credit				
	Charge Accounts	*Retail Dealers*	*Finance Companies*	*Total*	*Cash Personal Loans*	*Total*
1951	283	123	186	309	381	973
1952	309	243	373	616	460	1,385
1953	339	284	522	806	567	1,712
1954	363	322	500	822	661	1,846
1955	376	377	610	987	830	2,193

Source: Bank of Canada Statistical Summary—April 1956.

The expansion of consumer credit that occurred in Canada in 1955 may now be considered in more detail. There was actually a decline during the first quarter. But with the second quarter registering an all-time record increase, most indices of Canadian economic activity also recorded their most spectacular increases. The growth during 1955 in consumer credit outstanding of $347 millions of dollars occurred chiefly in two forms: cash personal loans (up $169 million) and instalment credit from finance companies (up $110 million). Instalment credit on the books of retail dealers rose by $55 million during 1955. Charge accounts showed a relatively small increase of $13 million. Commercial bank loans to instalment finance companies increased by $116 million. This category of loan showed the greatest increase in the general expansion of bank lending. Banking figures for 1955 also recorded a substantial growth in personal loans, fully secured personal loans being up by $86 million, other personal loans by $113 million.

Table 4—Types of Consumer Credit Outstanding in Canada, 1955

(Millions of dollars)

		Instalment				
	Charge Accounts	*Retail Dealers*	*Finance Companies*	*Total*	*Cash Personal Loans*	*Total*
Dec. 31, 1954	363	322	500	822	661	1,846
Mar. 31, 1955	301	304	493	797	675	1,773
Jun. 30, 1955	317	314	556	870	743	1,930
Sep. 30, 1955	330	334	608	942	779	2,051
Dec. 31, 1955	376	377	610	987	830	2,193

Source: Bank of Canada Statistical Summary—April 1956.

Different Dependence of Trades

Not all types of retail trade are, of course, equally dependent upon consumer credit. It is, in fact, largely because of the peculiar dependence of certain industries on credit sales that consumer credit is of such significance, particularly in cases of regulation or control. In Canada, approximately two-thirds of all retail sales are for cash, with credit sales divided between charge and instalment sales in a ratio of roughly two to one. For certain trades, however, the relative position of cash and credit sales is altogether different from this average. For example, in the case of furniture, radio and appliance stores, 69.2% of total sales in 1955 were on credit. Credit financed 67.8% of motor sales and 77.9% of fuel. By comparison, credit financed 38.1% of sales in department stores, 39.1% in jewellery stores, and 24.9% in grocery and combination stores. Thus all categories of retail trade now depend, to some extent, on credit selling.

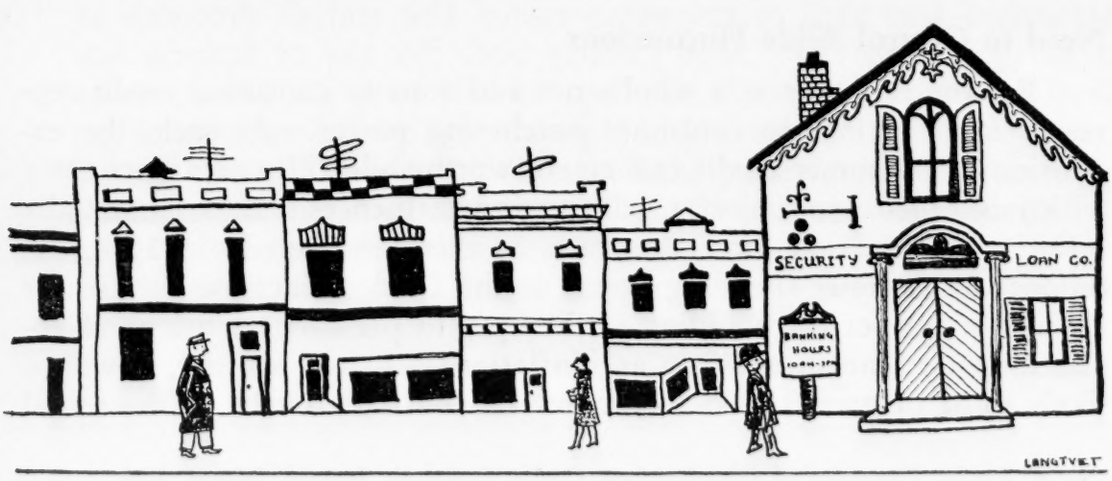


Table 5—Cash and Credit Sales in Selected Trades in Canada, 1955

(Millions of dollars)

	Sales				(2) and (3) as Percentage of (4)
	(1) Cash	(2) Instalment	(3) Charge	(4) Total	
Furniture, Appliance, Radio	160.3	259.0	100.8	520.1	69.2%
Motor Vehicle Dealers	753.9	1,011.5	578.8	2,344.2	67.8
Fuel Dealers	59.8	204.4*	*	264.2	77.9
Department Stores	712.2	199.2	239.5	1,150.9	38.1
Jewellery Store	72.8	24.3	22.3	119.4	39.1
Grocery and Combination	1,097.7	364.4*	*	1,462.1	24.9
All trades	8,188.1	1,676.8	3,009.1	12,874.0	36.4

*Instalment and charge sales not distinguished.

Source: Retail Credit—Fourth Quarter 1955—D.B.S.

What is the economic significance of consumer credit? To the individual, of course, consumer credit facilitates desirable purchases otherwise beyond his means. Admittedly by saving in advance of purchase, rather than after in the form of debt repayment, more goods could be obtained, but the desire for present consumption is sufficiently strong, or the individual's faith in his ability to save voluntarily so weak, that many are prepared to incur substantial interest charges in order to advance the time of enjoyment. This reflects, of course, a generally optimistic attitude towards future employment and income prospects. For many, the propensity to consume is very closely related to the propensity to go into debt, and this latter propensity will be more closely tied to future income prospects than to present income.[1] In the case of those individuals who have committed a substantial portion of their income to debt repayment, any failure of future income to materialize could have serious consequences, particularly if, as has been already suggested, their liquid asset position is weak.

Need to Control Wide Fluctuations

For the economy as a whole, net additions to consumer credit represent net additions to consumer purchasing power. As such, the expansion of consumer credit can give a worthwhile fillip to an economy which is otherwise subject to depressing influences. In a potentially inflationary situation, however, such as exists in Canada in 1956, additions to consumer spending power in the form of increased consumer credit is a further force adding to the upward pressure on prices. General monetary measures of an anti-inflationary nature are not, however, likely to be of great service as a check on consumer credit, as the actual

[1]See P. Einzig, Dynamics of Hire-Purchase Credit, Economic Journal, March 1956.

rate of interest appears to be a very minor consideration with most individuals contemplating going into debt in order to increase consumption. It is for this reason that selective credit regulations, directed at down payment requirements and at the length of repayment period, have been frequently brought into play to limit the growth of consumer credit. Apart from possible reluctance, as a matter of principle, to see specific, rather than general, measures employed, it is arguable that selective control of consumer credit involves discrimination against those industries and retail outlets which rely to the greatest extent on consumer credit. Canadian experience in 1956, however, suggests that even general monetary anti-inflationary measures inevitably step on certain toes more painfully than they do on others. No matter how impartial and impersonal a policy is intended to be there will always be some sectors of the economy that feel its impact more than others. The selective control of consumer credit, though it manifestly discriminates against some trades, will undoubtedly remain an essential item in the anti-inflationary arsenal of modern nations.

If consumer credit can exert inflationary pressure in certain circumstances it can, as well, be a deflationary force in other situations. In essence, purchases on credit represent a moving ahead in time of consumer expenditure. The repayment of debt, therefore, is the use of current income to make payments on goods already produced and does not involve any demand for new production. When instalment credit outstanding begins to decline, this involves a diminution of consumer purchasing power. The danger is that new debt incurred may fall off drastically whilst repayment of the existing debt continues at the prevailing level. If such a development coincides with rising demand in other expenditure sectors the effect could be salutary. But should consumer debt repayment become a deflationary influence at the same time as investment and government spending are declining, the result would be a widespread depressing influence on income and employment. Certainly, one of the crucial factors in such a situation is the extent to which an economic decline will induce consumers to limit new commitments and attempt to pay off their existing debt. The psychology of consumers, and their pessimism or optimism, becomes a factor of increasing importance in any economy in which consumer credit plays an important part. When one considers all the possible ramifications of consumer credit one is inclined to conclude that an economy in which such credit is substantial is rather in a position similar to holding a tiger by the tail: it is difficult to decide whether holding on or letting go is the more risky alternative.

Who will Teach Science?

Much has been said about the need for more scientists and technologists. Assuming that the necessary talent is latent in the country, the next most crucial factor is the ability of the schools, technical colleges and universities to teach the rising number of students. Despite its vital importance, however, the school teaching of science has been allowed to become a frustrated and depleted profession; and although at last the school situation is a matter of national concern, it is not yet widely realized that we should already be trying to save science teaching in the universities from the same decline.

The signs that something is wrong are evident in the difficulties in appointing staff. To see why scientists are less willing to join university staffs, it is only necessary to compare the position today with that of thirty years ago. Neither the Government nor industry was as appreciative of the value of scientific research as it is now; in fact Russia was probably the only country where the government, following Lenin's early association with electrical engineers, made a truly active effort to encourage science and technology. Today the situation is different. The 1939-45 war made both the Government and industry realize that research was vital to our military and economic survival. Pre-war Government research establishments were expanded, and new ones created. Those far-sighted firms which set up research departments before the war prospered enough to expand these departments after the war. Many other firms have created research departments since 1945.

But the present university science position is not explained simply by the general shortage. When Government or industry pays men to research, it wants results, before its rivals can get them. The research worker in government or industry, at least in the better establishments, is therefore encouraged to devote all his effort to research. Thus even if he had no help, he could proceed at about twice the rate of the university worker, who usually spends at least half his energy on teaching duties, even when vacations are counted in. The difference, however, is still greater, since to ensure that the government research worker proceeds at full speed, he is provided with assistance on a scale which no university can contemplate. The average scientific officer for example, in a good research establishment may be supported by up to two experimental officers and one assistant (scientific), besides suitable workshop resources. The average university lecturer is very lucky if he has one half of a mechanic's or technician's time to devote to his researches, and he hardly ever has any helper of the experimental officer class.

Now it may be thought that, even so, the universities would not or ought not to be in competition with, say, government establishments, for the former should undertake pure research, while the latter are obviously more interested in applied research. The fact is, however, that the more progressive government establishments realize that applied research cannot flourish alone, and that the best way of enjoying the stimulating effect of pure research is to have it going on in the same establishment. Thus, in some fields the best facilities in the country

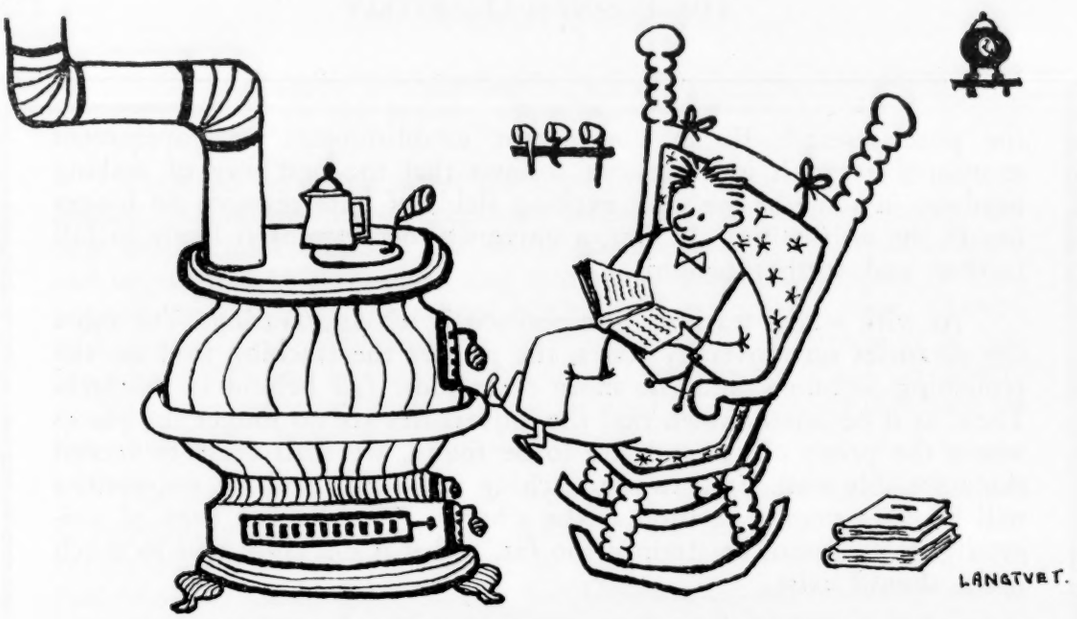
for pure research lie in government establishments or government sponsored research institutes. It follows that the best way of making headway in some of the most exciting fields of pure research no longer lies in the universities. In fact, a university department is likely to fall further and further behind.

As with school teaching, the position is self-aggravating. The more the vacancies on university staffs, the greater the teaching load on the remaining lecturers, and the more these must fall behind in research. Then, as it becomes known that the universities are no longer the places where the prizes of research are to be found, we shall cease to recruit the more able men. In turn the teaching will suffer and the universities will be in as poor a position as the schools. The altruism even of university staffs cannot be strained too far, and it is not right that so much strain should exist.

Neither the government nor industry is to be blamed for trying to do what it sees as its own job more efficiently; indeed industry is to be praised for its recent gesture in the direction of science training in schools. But the time is overdue for an examination of the effect of the growth of the research establishments on the universities. Teaching suffers if it has no direct contact with research. Therefore any solution must be rejected which demands that the universities should give up research in any of the subjects that they teach. Instead the universities must expand their facilities for research by reducing the teaching load on the individual worker and providing him with more help. This may make science departments large in comparison with their sister departments in arts, but there is so much to be said for the traditional linkage of science and arts in the universities that we should try to keep it intact . . .

Apart from the difficulties in recruiting lecturers, the universities are beginning to lose professors and readers to government service. While some degree of interchange is beneficial, the universities are now unable to fill the gaps. Admittedly our too small scientific effort has been spread too thinly, and the universities must take a fair share of the strain. But the symptoms show that too much is being asked of them, and that once again the goose is being slaughtered for a golden, or, perhaps atomic, egg. With the prospective rise in the number of science students in the next ten years, the teaching load could become insupportable.

It is not too late to save the position. The universities are still attractive to men of science in that they alone offer contact with the humanities and with the plastic energies of youth; and that they sometimes offer rather greater personal freedom. Their position must indeed be saved. However great our immediate need may be for science graduates in defence and industry, we shall be aggravating—perhaps irreparably—the long-term need for scientists unless a proper proportion of our talent comes back into the universities to help the next generation into its rich scientific heritage.—*From Professor R. V. Jones' "Scientists for the Universities", The Universities Quarterly, August 1956.*



BOOK REVIEWS

PUBLIC POLICIES TOWARD BUSINESS

by Clair Wilcox, 1955; Richard D. Irwin, Inc. Homewood Ill.; xix, 898 pp. $6.75.

Although Dr. Wilcox, withdrawn from the hurly-burly of Washington Administration to the calm of the Joseph Wharton chair of political economy at Swarthmore, modestly calls this "a textbook for college and university courses in economics and political science", both business and government executives will welcome this comprehensive guide around the maze of controls. By tradition, economic theory was a revolt against intervention, constantly advocating "laissez-faire, laissez-passer" until the late Lord Keynes in 1936 argued that the capitalist economy left to itself tends toward unemployment and that everything physically possible should be made financially possible. But in this neo-mercantilist age, government interference with business has gone far beyond the mere credit control by a central banking authority advocated by Keynes. Economists have, however, tended to narrow their studies, overlook politics as a separate science and consequently become increasingly incomprehensible to businessmen.

Dr. Wilcox fortunately gives equal emphasis to the economic and political aspects of public policy towards business activity; maintaining, supplementing, and moderating competition, substituting regulation for competition and public for private enterprise. His viewpoint is that of theoretical economist and public administrator: "Business cannot always be expected so to govern itself as to serve the public interest, but must

be subjected to external discipline; competition affords a more effective discipline than public regulation; the officers of regulatory agencies are often skillful, industrious and conscientious, but regulatory controls are bound to be cumbersome and costly; such controls, in solving one problem, inevitably raise a host of others; conflicts arising, in their application, between considerations of economics and those of politics are usually resolved by subordinating economics to politics; the price system is one of the greatest achievements of civilization and government action, however necessary, is at best a poor substitute".

This book deals with U.S. Government policies of maintaining competition by antitrust laws, patents, copyrights and trade-mark limitations and the prevention of price discrimination through exclusive contracts, discounts, etc., of supplementing competition by laws protecting consumers and investors, aiding business, agriculture and labour, and conserving natural resources; of moderating competition by allowing exceptions to anti-trust, by curbing competition in distribution, by supporting agriculture and by compulsory cartels; of substituting regulation for competition by state and federal commissions fixing rates, regulating public utilities and controlling directly in wartime; and of substituting public for private enterprise on federal, state and municipal levels.

In conclusion Dr. Wilcox looks beyond American frontiers to glance hurriedly at government policies in other countries, pointing out—and making his book far more important to Canadian readers for that very reason—that "Canada is the only country whose policy has run parallel to that of the United States".

How close and important is this parallel, was shown during the recent hearings of the Ilsley Royal Commission on Patents, Copyrights, Trademarks and Industrial Designs when Washington lawyers were briefed to defend the Canadian consumer against exploitation by Canadian monopolies, cartels and patent rings! For that reason alone and also for the author's charming and persuasive style, this book is recommended to all interested in the whys, wherefores, and hows of public policies toward business.

THE INTERWAR YEARS—AND OTHER PAPERS

by Hubert D. Henderson, 1955; Oxford University Press, Toronto. XXVIII, 445 pp. $6.50.

As prices steadily climb higher and the value of money correspondingly falls, business and union leaders with their increased profits and wages may ridicule the fixed-income economists looking further ahead and crying havoc. Did not Keynes, too, ridicule their long-term

views "In the long-run we are all dead"? Yet history does repeat herself alarmingly and in the quest to know where we are going it often helps to look back and see whether we have not travelled the same road before. For this reason the publication of Hubert D. Henderson's "The Interwar Years and Other Papers" is of importance not only to those who started their economic search by reading his "Supply and Demand".

"The history of the inter-war period provides no support for the view that we should attempt once again to reconstruct a war-shattered world on the basis of a freely working economic system, international credits, the reduction of trade barriers, and the outlawry of quantitative regulation. To attempt this would be not to learn from experience but to fly in its face. It would be to repeat the mistakes made last time in the name of avoiding them. It would be to invite the same failure, and the same disillusionment; the same economic chaos and the same shock to social and political stability; the same discredit for the international idea".

This is the liberal economist writing in 1943 before Bretton Woods, G.A.T.T. and U.N. were born to try to do precisely what he warned against, a classical economist who eloquently attacked his friend Keynes' 'General Theory of Employment': 'he invites the world to throw upon the scrap-heap a large part of the orthodox economic theory in which I still believe, to discard the methods of analysis which I intend to continue to employ, and to substitute a new theoretical system of his own which in my opinion asserts what is false and denies what is true, and is likely to cause an immense amount of intellectual confusion'. But in this collection of writings, edited and prefaced by Henry Clay, can be traced across the busy thirty years 1923-1952 the modification of both economist and economics under the stress of practical problems faced as university lecturer, editor, with Keynes as Chairman, of the liberal weekly "The Nation", and economic advisor to the British cabinet both in depression and during the war.

He ended by being equally sceptical of laissez-faire and planning, a defender of both quantitative controls and discrimination in certain circumstances, opposing "the subordination of human welfare to the arbitrary sway of market prices under the influence of doctrinaire abstractions, misplaced idealism and nostalgia for the past" and recognizing "the deeper human urge to set reasonable limits to the arbitrary power of money over economic life". Recognizing this significant change in the economic scene from that pictured in classical economic theory, he deplored the diagnosis of the world's interwar illness as due only to economic nationalism and the obstacles it set to international trade: long before the second war he had realized the incom-

patability of the current popular aims 'internationalism' and 'planning'. Consequently he opposed the belief that if only we could restore the conditions of the nineteenth century all would be well. But what he could not foresee, or rather deliberately excluded from his calculations, were Marshall Air, Colombo Plan, Point IV, S.U.N.F.E.D. etc. "The world is not nearly ripe for any application between countries of the principle "From each country according to its ability; to each country according to its needs". This principle can be applied between allies during war, united by common purpose, but it is chimerical as a basis for peacetime international relations".

"CANADA LOOKS AHEAD"

by Grace Laugharne, 1956. Oxford University Press, Toronto. 158 pp. $2.25.

"GROWTH AND FUTURE OF THE CANADIAN MARKET, 1900 to 1975"

by Jack Firestone, 1956; American Marketing Assn., Toronto. 139 pp.

Grace Laugharne looks back over Canada, since Confederation politically and since the Depression economically and presents a clear and precise picture of Canada today. This handbook, invaluable to all with an interest in Canada's development, has been prepared for the Royal Institute of International Affairs by a Canadian who published "Springs of Canadian Power" in 1953. Concise and easily read, she reduces the St. Lawrence Seaway, for example, into 12 pages, Canada's petroleum industry into 11, natural gas into 9, aluminum into 8, pulp and paper into a 3-page chapter: her maps too are useful.

The "Growth and Future of the Canadian Market", completed early in 1955 to form Part I of "Marketing in Canada", a reference book still to be published, was submitted to the (Gordon) Royal Commission on Canada's Economic Prospects. Its first chapter reviews the expansion and changing character of the Canadian market from 1900 to 1953: its second chapter deals with the future to 1975 on the basis of four alternative assumptions, a "high consumption" economy, a "high investment" economy, a "high government expenditure" economy and an "average" pattern economy; and comments on possible uses of market projections.

Pending publication of the Gordon Commission Report, any predictions helping business to plan ahead are welcome. Dr. Firestone fills in much of the detail of the pleasant and optimistic background painted by Grace Laugharne.

U.N. STATISTICAL YEARBOOK, 1955
644 pp. $6.00.

U.N. WORLD ECONOMIC SURVEY, 1955
201 pp. $2.00.

ECONOMIC DEVELOPMENTS IN THE MIDDLE EAST, 1955
151 pp. $1.50.

ECONOMIC DEVELOPMENTS IN AFRICA, 1955
Ryerson Press, Toronto: Periodica Inc., Montreal. 108 pp. $1.00.

All these quarto-sized volumes were prepared by U.N. staff, the first by the statistical office, the others by the U.N. Bureau of Economic Affairs. This seventh issue of the Statistical Yearbook contains 183 bilingual tables on demographic, economic, financial, social and cultural subjects, covering 20 years and 250 geographical areas listed in the country index. To all interested in production or trade beyond Canada's boundaries this is an invaluable publication, pointing to possible markets and new sources of supply.

The Survey, prepared for discussion of the world economic situation by the Economic and Social Council (ECOSOC) provides an economic history of the first postwar decade and further declares that; the total volume of output of factories, farms and mines in the private enterprise economies rose by about two-thirds from the prewar period to 1954; the gap in production between the developed and underdeveloped areas has been growing; the expansion of world trade during the past 10 years has been much more rapid than during the corresponding years after the first world war; increases in industrial production in the centrally planned economies have been relatively large, but not directly comparable to the growth in private enterprise economies.

The two 'economic development' volumes are supplements to the World Economic Survey and are of particular importance in view of current developments in North Africa and the Middle East. The African review, for example, points out that in Algeria, Tunisia, Morocco and Libya population growth has far exceeded that of agricultural production. None of these economies would appear to be visable i.e. able to maintain their present standards of living without subsidies from a colonial power! In contrast, the Gold Coast, Nigeria and the Federation of Rhodesia and Nyasaland are the three leading dollar earners among British territories: and the petroleum industry, excellently covered in the Middle East volume, makes certain countries the envy of their impoverished oil-less neighbours.

Gordon Huson, Editor.

The Case of the Whitmore Shoe Company

Continuing our policy of the past three years, The Business Quarterly is again publishing this fall a Canadian case problem, prepared at the School of Business Administration for discussion by groups. Previous cases have been selected from the controversial field of administrative practices, from marketing and advertising. With the case of the Whitmore Company, we present a problem not only of administrative practice, but also of industrial relations, pension plans and also profit-sharing, all timely subjects for management consideraion. Although the names of the company, its management, workers, and location have been disguised, this problem represents a true story.

Late in June, 1956, John Bartlett was summoned before the Administrative Committee that represented the employees of the Whitmore Shoe Company, Limited, manufacturers of men's fine shoes in Brantford, Ontario. Mr. Barlettt had been guilty of ignoring an important request made by his foreman with regard to the completion of certain work on which he had gotten behind. In most companies, his case would have been dealt with by the management but under a contractual arrangement entered into by the management of the Whitmore Shoe Company, Limited and its employees, Mr. Bartlett's case was turned over to the Administrative Committee of the employees' own organization. The position of management as affected by the institution of its Management Labour Plan in 1937 was explained as follows by the president:

> "Under our plan we have voluntarily relinquished the right of 'arbitrary discharge' and no executive in our organization has the authority to dismiss or lay off an employee without the approval of the Administrative Committee, a group of workers elected from the ranks of the workers, by the workmen themselves. It is to this committee that the management must turn for redress in the event of an employee not conforming to the rules or not living up to the standard expected of him either in production or quality of work."

The Management-Labour Relations Plan

The Whitmore Shoe Company was owned and managed by Mr. John Whitmore. Two sons, John Jr. and James, assisted Mr. Whitmore in the executive direction of the company. The company normally employed from 285 to 320 skilled and semi-skilled workers throughout the year, the total depending somewhat on the season of the year and the demands on the company for delivery of shoes. In 1937 Mr. Whitmore introduced the Whitmore Shoe Company Management-Labour Relations Plan which he described as follows:

> "To simply term our present agreement a 'Wage Plan' is erroneous in the extreme, because it not only provides for stability of workers' income, but embraces in a most complete way all of the details that of necessity exist in the relationship of management with labour. In my opinion, it may more properly be termed a **'Management-Labour Relations Plan'**. It does, of course, provide stabilized income to our oper-

ators, but it also gives our people a very **important voice in all matters** that concern their well-being in the business and does this in a way that is equally fair to management and to the workers themselves.

"The principal reasons we had in mind at the time of voluntarily offering to our employees a contract, which in reality established a **partnership** between them and their firm, may be outlined as follows: "We wanted, first, to do our part in assisting to **place fair-mineded labour,** and our labour is decidedly fair-minded, on **that plane of dignity in industry** which all clear thinking industrialists of today are agreed labour should occupy.

"Second, to give to our operators that **feeling of security** not only in their income, but also in the conditions under which they work which we feel they are entitled to enjoy.

"Third, to **relieve them of the multitude of worries** attendant upon uncertain employment and unreliable incomes which detracts from their happiness, not only in their home life, but at their work as well, and so, by relieving them of such worries, enable them to approach their daily tasks with lighter hearts, clearer brains, and greater efficiency than can the individual whose thoughts are fettered with the worries and the anxieties that men or women must of necessity carry with them when they cannot depend on the continuity of their employment or rely on the income which they obtain therefrom.

"Fourth, to allow ourselves the happiness and enjoyment in the conduct of our business which can only come to management **through intimate and friendly contact with their workers,** established on a basis of mutual confidence and respect. And if you are one of those mercenary individuals who uses only the dollar sign as a yardstick by which to measure the merits of a proposal, let me say that the adoption of any plan that brings employer and employee closer together is good business, and that no business or industry filled with strife, friction, and dissension, can prove profitable either to management, or to the workers.

"And last, but by no means least, we wanted to place in the hands of our dealers and their **customers an unqualified guarantee** that the workers, whose skill and effort goes into the building of Whitmore shoes, are a well-paid and fairly treated group of men and women."

How the Plan Operated

Mr. Whitmore described the details of the Whitmore Shoe Company Management-Labour Relations Plan as follows:

"The first step in our programme was to set aside a percentage of our sales which represented our operators' just share of every dollar which we receive from our customers in payment for the shoes shipped to them. In our case, this amount was 22.2% of every dollar's worth of gross sales.

"The year 1937 was agreed on between us as satisfactory for this purpose. In this connection, I would like to mention that 1937 represented the best year of earnings that our employees had enjoyed since 1929, so that we, the management, can say that the plan has been based on the earnings of a year that was decidedly favourable to our workers. We felt that in order for the plan to be successful, it must necessarily be based on a foundation that would be lasting and which would prove to our people that we were acting in a fair and honourable manner and with their interests at heart; otherwise the plan would be doomed to failure from the start.

"The amount which this percentage of our sales represents is then credited to a 'Labour Reserve Account' and the management of these funds is placed exclusively in the hands of the Administrative Committee, elected from the ranks of the workers themselves, and responsible only to the workers.[1] This Committee administers not only the financial affairs of the workers in our organization, but all other matters pertaining to their welfare and the conditions under which they are employed. Certainly management still has its place in the picture, but instead of being a dominating influence, management becomes co-operative with the labour end of the business.

Division of Labour Into 3 Groups

"In the administering of the Labour Reserve Account the employees are divided into three groups as (A), (B), or (C).[2]

"Into group (A) is placed the older of our employees in point of service. In this connection I might say that at least 85% of our operators are included as group (A) employees. Such employees cannot be laid off while any other group (A) employees are working. They are also entitled to participate in any accrued earnings that may remain in the Labour Reserve Account for distribution at the end of the season.

"Class (B) employees enjoy all privileges of class (A) employees, except that in slack times they can be laid off, if necessary.

"Class (C) represents only the very newest of our employees who are brought in and paid on an hourly rate and who must of necessity go through a period of probation in order that the Administrative Committee and the workers as a whole may have the opportunity of deciding whether or not such new operators are up to the standard which they require in the workers that they will associate with in their future operations.[3]

[1]The members of this committee were elected by the workers for a term of one year each. The chairman of the committee also was chosen by the workers. He devoted all his time to the affairs of the committee.

[2]Company foremen are not included in any of these groups.

[3]A worker gets into the (A) or (B) classification by making application to the Administrative Committee which either grants or refuses each such request.

"All class (A) and (B) workers are then given what we term a 'basic rate' or drawing account—such amounts being computed on a yearly basis according to the earning power of each individual operator in the business as demonstrated by his or her 1937 earnings, proper adjustments being made in all cases where changes in operator's work had occurred in the meantime.[4] This amount is then paid to each (A) and (B) worker in 52 weekly installments throughtout the year. This does not mean, however, that an operator's drawing account, once determined, is permanently fixed, but on the contrary, the Administrative Committee can and does adjust these amounts as operators improve or are promoted to better paying positions.

Profit-Sharing, Pensions and Fringe Benefits

"The total of such drawing accounts is then charged each week against the Labour Reserve Account which in turn is credited with 22.2% of the list price of all shoes packed. If, at the end of the season, there is a balance or surplus remaining in the Labour Reserve Account, such balance is distributed among the operators themselves on a pro rata basis, or in any way the operators should decide to distribute it, the management having no voice whatever in the distribution of these funds.[5] If, on the other hand, business should fall off to a point where sales drop low enough to endanger the drawing accounts of even our group (A) workers being earned through the allocation of the 22.2% of the sales, our agreement provides that, under such circumstances, the drawing account of all workers shall be reduced to a point to bring such drawings within the actual amounts being earned, so as to keep the amount drawn by the operators within the 22.2% level. Monthly reports are handed to the Administrative Committee showing the position of the Labour Reserve Account to date, and these reports are subject to the check and approval of any accredited firm of Public Accountants engaged by the Committee for that purpose. All records necessary to ensure a satisfactory and intelligent audit are open for their inspection.

"Thus labour, as partners in the business, participates to their advantage in the good years, and must of necessity retrench in the bad years, the same as management itself must retrench and accept reduced dividends, and, at times, no dividends at all. During a bad spell of business an operator may be called upon to accept a reduction in his or her drawing account. But this reduction would be comparatively small and certainly not to be considered for a moment in comparison to long lay-offs that do occur in industries, during which the workers receive no income at all and must of necessity dissipate their savings, provided they have been fortunate enough to accumulate something of a financial reserve, or, if not, go hopelessly in debt for the necessities of life

[4]The amount of each worker's drawing account was determined by the Administrative Committee. In fixing the amount of a worker's annual drawing account the Committee considered such matters as the job or jobs the worker was called upon to do, the man or woman's working proficiency, the worker's seniority and the like.

[5]All decisions with respect to the end-of-the-year disposition of the Labour Reserve Account were made by the Administrative Committee. Should the committee see fit to do so, some portion of the balance of the account could be carried over as a credit to the account for the following year.

and in many cases be compelled to rely on public relief for their existence."[6]

Employees of the Whitmore Shoe Company, Limited, had for years enjoyed certain advantages such as are today known as "fringe benefits". A company-originated pension plan was typical of these advantages. No changes were made in these "benefits" when the Management-Labour Relations Plan was adopted in 1937.

The Case of John Bartlett

John Bartlett had worked for the Whitmore Shoe Company, Limited, since 1937 except for a slack period in 1938. Starting as a floor boy on general duties, John learned the "levelling" operation after about one year with the Company. This job required considerable care on the part of the operator to see that each sole was properly levelled. After two years as a leveller, John became a stitcher. The important feature of this operation was in attaching the sole to the welt before the shoe was assembled. John continued to show above average ability in his work and continued to learn new operations. His next move came after five years as a stitcher, at which time he became an edgesetter. When the shoes reached this stage, they were nearly a finished product and the operator had to take care not to injure the shoe. The job was one of finishing the edge of the sole. A hot iron was used to smooth the edge, then an ink was applied. Finally, the edge was "ironed" again, leaving a smooth darkened finish on the edge of the sole.

During the next few years, John Bartlett worked on a number of operations whenever and wherever his foreman needed him. Because of his wide knowledge of work in the plant and his ability to adapt to the various operations, he could be moved about without risk of production loss from inexperience. He was classified as an (A) worker. Since he first went to work for the company in 1937, John had served several terms as a member of the Administrative Committee. He was serving in that capacity in the summer of 1956.

On Friday, June 22nd, John Bartlett was working as a leveller. When the normal work day was finished at 3:30 p.m., he had completed his daily quota and was ready to leave the plant for the week-end. On one day earlier in the week, John had failed to complete his daily quota and as the plant was then operating on a 900 pairs per day quota basis, John's foreman asked him at 3:30 on Friday to remain and make up the production he had lost earlier in the week. This was a matter of about 1½ hours work. Another reason added to the necessity for completing the back work: soles came to the levelling machine wet. They could be left in this condition overnight, but could not be left wet over the week-end without risk of injury.

When the foreman asked John and several other workmen to remain after 3:30 to finish up their quotas for the week, the others agreed but John refused. He gave no explanation for his refusal and left the plant. The foreman found it necessary to bring in another workman on Saturday morning to complete John's work.

[6]The management stated that the size of the (A) worker classification was maintained at a level capable of producing 600 pairs of shoes a day, based on their forecast that the plant never would be called upon to operate below this volume.

On the following Monday, the foreman placed a complaint against John with the workers' Administrative Committee. The Chairman immediately called a special meeting of this committee to consider the case. In the committee meeting, it developed that this was the first time that Bartlett had been before the Administrative Committee. It was also stated that after leaving the plant on the night of Friday, June 22nd, John had become thoroughly drunk.

What Business Wants in the Graduate

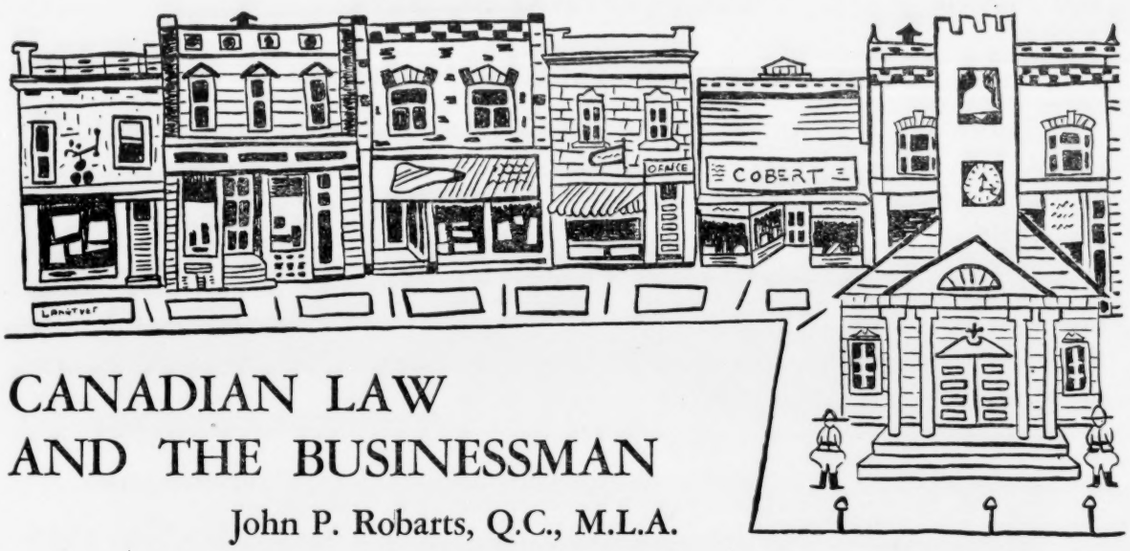
"In the early stages of employment, the employer must assess the employee individually, scrupulously and fully. These assessments are easy only when the individual is mediocre. When the individual is full of potential for good, the assessment is not fast, even by the employer's standards. And, by the standards of youth in the bloom of self-confidence, it is painfully, in fact discouragingly, slow.

"During the somewhat long period of appraisal and guidance, the employer is showing faith in the individual youth and it becomes and behooves the youth to show faith in his employer.

"Thus we find one of life's most basic and satisfying tenets—mutual faith—pervading the work-a-day world as it has encompassed home, religion, and education from time immemorial. Without it life is empty, whether the hours be on or off the job. With it there is an accompanying satisfaction which makes even toil a pleasurable experience.

"It is qualities such as these—proper attitude and faith—that business is looking for in today's university graduate. Knowledge and skill are of value. But of major importance in the long run for society as a whole are imagination, a balanced sense of values, a positive attitude toward work and faith in one's self and one's fellow men."

—Herbert H. Lank, President of the DuPont Company of Canada, addressing the University of Montreal Spring Convocation.



CANADIAN LAW AND THE BUSINESSMAN

John P. Robarts, Q.C., M.L.A.

THE proposed extension of Workmen's Compensation by compelling participation by the whole retailing industry in Ontario from January 1st, 1957 has met some resistance from the industry, undoubtedly generated by the compulsive aspect of the proposed change.

In view of this opposition, some comments on the Workmen's Compensation Board and its activities in industrial and business life are in order.

It was established in 1915 and at the present time protects about 1,400,000 men and women in Ontario. The Board administers the Workmen's Compensation Act, and provides medical and money benefits to employees injured by accident arising out of and in the course of employment. Negligence of employer or carelessness of employee are not factors in determining compensation, and the employer cannot be sued and is therefore freed of liability, while the employee is fully protected against his own carelessness or misadventure.

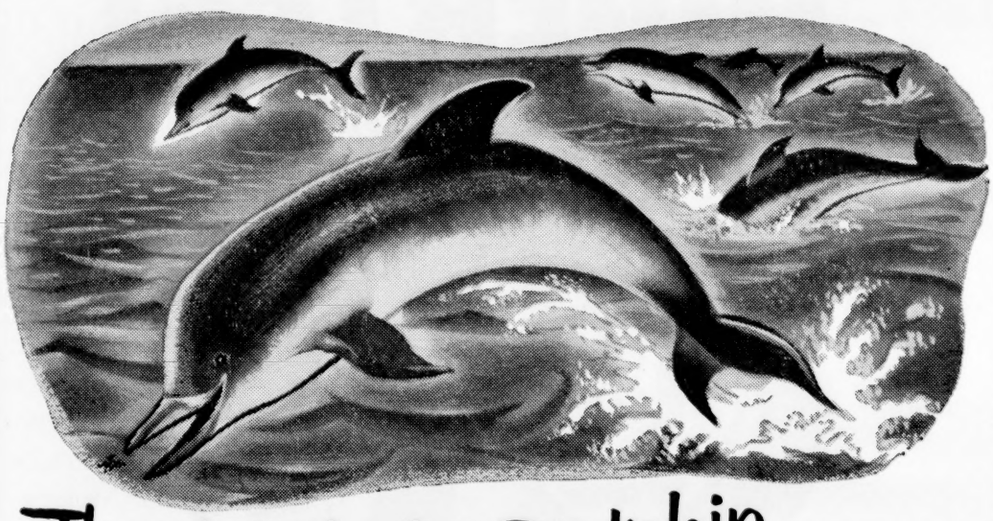
The Board operates a rehabilitation centre at Malton, Ontario, and the work of this institution is becoming more and more important. The amount of compensation is based on 75% of average weekly earnings for four weeks before the accident, up to maximum earnings of $4,000.00 per annum. There is no time limit on payments, and permanent disabilities are dealt with either with a lump sum or on a pension basis. In addition, the Board provides a pension of $75.00 per month to widows in the event of fatal injury, and $25.00 per month for dependent children until 16 years of age. The entire scheme is financed through payments made by employers which run from a minimum rate of 15c per $100.00 of assessable payroll, to a maximum rate of $13.50. The rate is based on the possibility of accident and the accident history of the industries placed in any one payment classification.

Workmen's Compensation to be Extended to Retailing in Ontario

There are few industries left in Ontario which do not come under the Act by compulsion. One of these is the retailing of goods industry, which has about 35,000 firms employing about 250,000 employees. Until the present time the Board has had neither staff nor physical accommodation to administer such a large group. In the last two years, however, the Board has moved into new quarters of its own and now wishes to bring its protection to as many as possible. Ontario is certainly not leading the way in protection of this group of our citizens, as there are already six other provinces administering a similar scheme on a compulsory basis to the employees of all retail establishments.

It is expected that the initial rate will be very reasonable. In 1955 a survey was made of 1200 retailers, about a fifth of the industry, who were already availing themselves of the scheme by application. In that year these firms experienced 3,400 working incidents, some serious and some minor, with a total cost to the Board of $191,000. There were 45,000 employees in these 1200 firms, and by projection the Board can expect to handle some 20,500 work incident reports in the first full year of operation. It is the opinion of the Board that all accident costs can be financed in 1956, 1957 and 1958 at a cost of 25c per $100.00 of assessable payroll. This compares with an average rate in all industry of 99c.

While this slight increase in costs is bound to be resisted by some retailers, it will bring great benefits and peace of mind to many citizens not now protected in any way against the day-to-day hazards of their occupation.



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Nature's biggest ocean show-off, the dolphin, gives hours of entertainment to those who see him in action. Travelling in family groups, they delight in jumping high out of the water and skimming gracefully over the waves. But behind the dolphin's antics lies a serious nature in providing for each other's needs. The air-breathing dolphin, when wounded by his enemies, would normally drown, but two others support it above the surface until it regains its strength while the rest of the group ward off repeated attacks. When older dolphins lose their agility, other members of the family provide them with food and protection.

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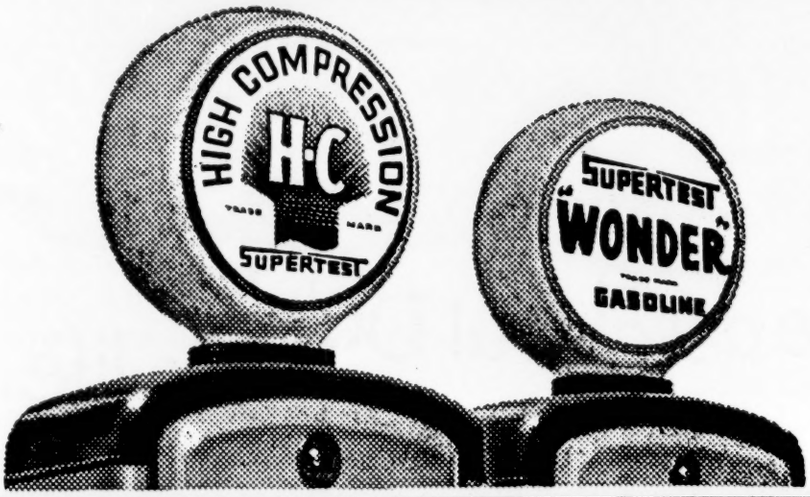

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Book Reviews cont.

WORKER SATISFACTION AND DEVELOPMENT

by A. Zaleznik, Harvard Business School, Division of Research, Boston, 1956. 140 pp. $2.00.

A. Zaleznik develops the hypothesis that, in the absence of major constraints, "any work group will spontaneously order its relationships to achieve a minimum level of effectiveness". By minimum level of effectiveness, Zaleznik means that the group will (1) meet management's expectations of job accomplishment, and (2) provide the minimum necessary social satisfactions for the group members.

This definition of minimum, incidentally, relegates the achievements of many work groups to sub-minimum standards. Many executives would be delighted if their work groups could attain "minimum", by Zaleznik's definition. Herein will undoubtedly lie much of the significance of the study for many administrators.

Constraints that might prevent such spontaneous achievement Zaleznik classes as of three kinds: (1) severe limitations or restrictions on interaction imposed by the technological organization of work; (2) the behaviour of the formal leader; and (3) the behaviour of individuals inadequately prepared for group membership.

Zaleznik arrives at these conclusions from an intensive and careful study of behaviour in a small factory

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Book Reviews cont.

work group. Much of the book is a detailed account of worker and supervisor behaviour in that group. In his final chapter he relates his findings to other work group studies and other theories of social behaviour. His style is enjoyably readable. His hypothesis merits true seriousness in reflection and in future observation of group behaviour.

The implications of Zaleznik's study are challenging for administration. In short, the administrator errs if he sees his assignment as making groups effective. He all too easily may become a constraint to the spontaneous forces within the group for achieving at least minimum effectiveness under its own steam. The administrator may more appropriately direct his attention to seeing that constraints to the group's natural processes do not appear, or, if they do, are removed. He becomes a facilitator of worker effectiveness, but never the director.

These are some implications of the study for achieving work groups of minimum effectiveness. But Zaleznik also leaves us with a tantalizing desire for insights into processes for achieving greater-than-minimum levels of effectiveness. Here he suggests the need for real leadership—not just someone to remove constraints to group processes, but to stimulate the forces of growth and adaptation. Zaleznik here has a real tiger by the tail.

R. K. Ready, Assistant Professor
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Books Received

MODERN INTERNATIONAL COMMERCE—*Edward E. Pratt*—Allyn & Bacon Inc. 677 pp. $6.50.

THE THEORY OF COST ACCOUNTING IN THE HOSIERY INDUSTRY —*A. Wyman Patric*—Univ. of Michigan. 229 pp.

CANADA'S CENTURY—Revised Edition—*D. M. LeBourdais*—MClelland & Stewart. 214 pp. $5.00.

MODERN MILL CONTROLS—*Norbert Lloyd Enrick*—Rayon Publishing Corp. 28 pp. $2.00.

DYNAMIC FACTORS IN INDUSTRIAL PRODUCTIVITY — *Seymour Milman*—John Wiley & Sons Inc. 238 pp. $4.75.

LOCAL GOVERNMENT IN ALBERTA—*Eric Hanson* — McClelland & Stewart Limited. 145 pp. $2.50.

OPERATING RESULTS OF DEPARTMENT & SPECIALTY STORES IN 1955—*Malcolm P. McNair* & *David Carson*—Harvard Business School.

CONFERENCE ON SALES MANAGEMENT — Contributed Papers 1956—*Robert L. Clewett* — University of Michigan.

STATISTICAL SAMPLING FOR AUDITORS AND ACCOUNTANTS — *L. L. Vance and J. Neter*—John Wiley & Sons. 310 pp. $9.00.

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